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# **China**

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# China

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## CONTENTS

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### INTERNATIONAL

#### GENERAL

- Huan Xiang Discusses State of World Affairs [GUOJI ZHANGWANG No 21] ..... 1  
Three Strategic Theories on National Development, Security [SHIJIE JINGJI DAOBAO 7 Nov] ..... 4

### POLITICAL

- Varying Views of *He Shang* Emphasize Country's Culture Not All Negative [RENMIN RIBAO 18 Nov] ... 6  
Political, Cultural Significance of Allegorical Satire Reviewed [GUANGMING RIBAO 4 Nov] ..... 7

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Zhang Yanning on Enterprise Mergers [QIYE GUANLI No 11] ..... 12  
Difficulties in Establishing Stock Markets Outlined [JINRONG SHIBAO 18 Nov] ..... 14  
Prices of Production Materials Stabilize [CEI Database 18 Nov] ..... 15  
JINGJI YANJIU Reviews Reform [JINGJI YANJIU No 9] ..... 16  
Journal on Government Role in Economy [JINGJI YANJIU No 10] ..... 45

#### PROVINCIAL

- Qinghai Faces 'Unprecedented' Power Shortage [Qinghai Radio] ..... 51

#### INDUSTRY

- Reform Program Launched for Power Industry [Beijing Radio] ..... 51

#### CONSTRUCTION

- Over Six Million Families on Housing Waiting List [XINHUA] ..... 52

#### FOREIGN TRADE, INVESTMENT

- Shares of State-Owned Enterprises To Be Sold to Foreign Firms [CEI Database 18 Nov] ..... 52  
Overseas Labor Services, Building Projects Increasing [CEI Database 18 Nov] ..... 52  
Guangzhou Invites Foreign Investment [XINHUA] ..... 53  
Shanghai To Build Export-Oriented Economy [CEI Database 18 Nov] ..... 53  
Commodity Export Figures Released ..... 54  
October Imports Compared to Previous 10 Months ..... 55

#### ECONOMIC ZONES

- Xiamen Attracts More Taiwan Investors [XINHUA] ..... 56

#### AGRICULTURE

- Setting Priorities for Grain Price Reform [NONGYE JINGJI WENTI No 10] ..... 56  
Country Increases Seafood Products Production [XINHUA] ..... 61  
Jiangsu Takes Measures To Fight Drought [Jiangsu Radio] ..... 62  
Numbers of Pigs, Sheep Rising [CEI Database 18 Nov] ..... 62

**SOCIAL**

Pervasive Low Cultural Quality Lamented [*Hong Kong LIAOWANG No 45*] ..... 63

**MILITARY, PUBLIC SECURITY**

PLA'S Flourishing Demolition Minesweeping Equipment [*BINGQI ZHISHI 15 Sep*] ..... 67

**HONG KONG, MACAO**

Prospects for Democracy in Hong Kong [*CHIUSHIH NIENTAI No 226*] ..... 69

## GENERAL

**Huan Xiang Discusses State of World Affairs**  
40050086 Shanghai GUOJI ZHANGWANG [WORLD  
OUTLOOK] in Chinese No 21, 1988 pp 3-6

[Article by Huan Xiang 1360 6763: "Huan Xiang Discusses State of World Affairs"]

[Text] In recent years, with the signing of the intermediate range nuclear missile treaty (INF) and the warming of U.S.-Soviet relations, the international situation has undergone an important transition. Under this warming of East-West relations, areas of tension throughout the world have shown a tendency to react with political resolution of their problems. Although the arms race has not come to a halt, in the minds of U.S. and Soviet policymakers it no longer carries the absolute priority it once did. Henceforth, an overall national strength race will take an increasingly important position in international struggle. This national strength race will primarily be shown in the development levels of economies, science and technology. Although social system and ideology antagonism still stubbornly persist, this will gradually become more subdued. At the same time that world structure is moving toward multi-polarization, a tendency toward blocs is emerging in the world economy. In order to adopt to the requirements that result from this situation, all nations, and particularly the large nations, are adjusting their foreign policy. At the same time we administer to our economic environment, rectify our economic order and comprehensively intensify our reforms we must conduct a cool appraisal and thorough study of the changing international situation.

### The World Is Entering a Fairly Long-Term New Stage of Relative Warmth

United States-Soviet relations, which since World War II have had a decisive effect on international relations, are undergoing important changes. After assuming office, Reagan intensified U.S.-Soviet antagonism by stepping up the arms race and the scramble for regional control. Because of this, U.S.-Soviet relations have been continuously chilly and the international situation has long been tense. After Gorbachev became Secretary General of the Communist Party in the Soviet Union, he implemented the domestic policy of "perestroika" and the foreign policy of glasnost and the relations between the two nations have improved. With the signing of INF, U.S.-Soviet antagonism has given way to dialogue. Currently, antagonism still exists between the two nations, but the trend toward dialogue is gradually growing stronger and moving toward normalization and systematization. In the three years since Gorbachev assumed his post in 1985, the heads of the U.S. and the Soviet Union have met for four summits—unprecedented in the history of relations between the two nations. Simultaneously, the foreign ministers of the two nations have met over 20 times, the defense ministers of the U.S. and

the Soviet Union have exchanged visits, and the Soviet Union demonstrated its heightened trust by opening up previously off-limits military installations to U.S. Secretary of Defense Carlucci.

As U.S.-Soviet relations have become warmer, regions of tension in the world between the two superpowers have seen political resolution of their problems. This trend has moved to other regions of tension where either the situations are cooling down or initial agreements at political resolution have been reached. The world is entering a fairly long-term new stage of relative warmth. This stage could last at a minimum until the end of the century.

This situation has come about primarily because of the lowered economic strength of both superpowers and the development of a multi-polarized world structure. Both sides must warm-up to the other in order to improve their own economic positions. Gorbachev, making the best of the situation, has proffered a "New Thinking." The United States must make corresponding adjustments and change in its strategy.

### The Effect of the Arms Race Is Relatively Weak, the Overall National Strength Race Grows in Importance

Massive military might provided the backdrop for the domination of the United States and the abrupt rise of the Soviet Union after the war. For a long time now, the two superpowers, the United States and the Soviet Union, have fought with each other to build overseas military bases, striven for strategic points, continuously increased their military budgets, intensified development of all kinds of new weapons ranging from strategic to space weapons, and carried out an arms race. All of this has made armed confrontation a paramount form of struggle in U.S.-Soviet relations. Spurred on by the United States and the Soviets, the NATO bloc and the Warsaw Pact bloc have long been in a state of tension with their fingers on the trigger. In recent years as the situation has developed, people have come to realize that although henceforth military might will undoubtedly be of importance in struggle between large nations, growth or decline in economic and technological strength will be of even greater importance in comparison. In this new age of relative warmth, the effect of global military confrontation in international matters will be relatively weak but economic and technological competition will grow increasingly fierce. This kind of competition will be carried out not only between the nations of the East and West with different social systems but also between the large capitalist nations. All nations will pay more attention to their economic and technological development than ever before and an overall national strength race focusing on economies, science and technology and including such things as military, political, management levels and cultural quality will replace the arms race as the primary form of international struggle. At present, nations are adjusting and reforming their economic structures, systems and development strategies to meet



the requirements of economic development. Adjustment and reform has become a tide sweeping across the whole globe. Although in the next 10 years the world economy will most likely remain in a low growth stage, it is estimated that at the end of the century there may be a new breakthrough in the new world technological revolution and another period of great development in the world economy will emerge. A world battle is unavoidable—not a military battle but a battle of economies and technology. The result of this will be a reordering of the world's large nations.

Of course, there is another aspect that must be taken note of. The arms race between the superpower nations continues. With the rapid development and widespread application of high technology, the superpowers are building high efficiency military forces to deal with future war. These forces include space weapons, new and improved strategic nuclear weapons and high technology conventional weapons. At the same time, the military thinking of the large nations is undergoing changes and as a result widespread reforms are happening in military strategy, force organization, command systems, weapons replacement and logistics supply. The popularization of missiles and the incipient possibility of the spread of nuclear weapons in recent years will bring on more complicated problems. As the international situation develops, it is highly likely that we will see repeated complications. The risk of a new world war has not vanished and we cannot overlook the arms race and the battle for disarmament.

#### **A Four-Way Fight Will Replace the One-on-One Struggle Between the Two Superpowers**

Because world economic development is uneven, the economic positions of the United States and the Soviet Union are falling. The economies of Western Europe and especially of Japan are on the constant rise. A bi-polar world dominated by the two superpowers will give way to a multi-polar four-way fight between the United States, the Soviet Union, Japan and Western Europe.

The U.S. economy went on a continual five-year rise beginning the end of 1982, the longest period of economic growth in the post-war era of peace. However, at the same time, the U.S. economy got mired in a "three highs and one low" situation. Namely, high treasury deficit, high unfavorable balance of trade and high domestic and foreign debt, and low in the value of the U.S. dollar. The United States is already in a relative decline, even though its overall economic strength is still tops in the world. The growth rate of Japan's economy has long led the world. In 1950, the total value of Japan's national production was only 3.8 percent of that in the United States. In 1987, using U.S. dollar calculations, Japan's national production value was 60 percent of that in the United States. Japan has only half the population of the United States, and so, the average Japanese produces a higher total value of production than the average American. Japan is now the world's largest trade

creditor and the largest international investor. Japan has the world's largest reserve of foreign exchange and the Japanese yen has become the world's strongest currency. Because of Japan's abrupt rise, economic friction between the United States and Japan continues to intensify. In recent years, economic development in the European Economic Community (EEC) has been slower than in Japan or the United States. Also, the development among the nations of the EEC has been uneven. However, the 12 nations of the EEC have over 300 million people and in 1987 the total value of national production reached \$4.2 trillion, roughly equal to the United States. The trade amount of the EEC ranks first in the world, with 40 percent of total world trade. In the last ten-odd years, the Soviet economy has long lagged behind Western developed nations and the gap is growing wider each day. Gorbachev's implementation of "perestroika" to promote reforms in the economic and political systems has as its goal a vitalizing of the economy so that they may launch a new race of overall national strength with the United States in the next century.

#### **An Increasingly Strong Tendency for Blocs to Emerge in the World Economy**

As the world economy moves toward internationalization and integration, more and more nations and regions are forming regional economic blocs to seek out a more beneficial position for themselves in international competition. This movement toward blocs is becoming an irreversible trend in world economic development. EEC member nations have already resolved to establish a unified market in 1992, allowing for free circulation of persons, commodities, capital and labor. Also, they will establish a Central Bank of Europe and a unified currency. Europe will become the world's largest market to date. In January of this year Canada and the United States signed a free trade agreement whereby beginning January of next year both sides have agreed to start eliminating customs duties and restrictions on most commodities of the other side. This will lay a foundation for the creation of a unified market with free circulation of commodities in North America. The United States is also in talks with Mexico about the signing of a free trade agreement. Japan is now using its own economic superiority to actively expand in the Asian-Pacific region through investment and trade. It is seeking to build an "East Asia Economic Ring" centered around Japan that would pull in the "Four Little Dragons" and the East Asian Alliance. The Soviet Union and the socialist nations of Eastern Europe are mulling over reforming and transforming the original Council of Mutual Economic Assistance, adapting it to meet the development requirements of a bloc. In the coming years we will see an era of fierce competition begin among these four large blocs. There will be interdependency among nations and greater mutual permeation. This is an objective requirement of world economic development. In addition, for the purpose of self-interest, each bloc will erect various

kinds of obstacles. This can only increase economic friction among nations and become a destabilizing factor in world economic development.

#### **The Asian-Pacific Region Assumes Increased Importance in World Economic and Diplomatic Contention**

Although Europe remains the focal point for the battle for disarmament, potential turbulence of various kinds of Eastern Europe could also effect East-West relations and the entire international situation. However, it is obvious that, because the economic growth in the Asian-Pacific region is much higher than in any other part of the world and it accounts for an increasingly large share of the world economy, this area is becoming the most dynamic region in the world for diplomatic and economic contention.

The United States, Europe and the Soviet Union all pay increasing attention to the Asian-Pacific region. Thus, the competition in this region grows fiercer each day. The Reagan administration, acting in its last hour, sent Secretary of State Schultz on a special visit to seven Asian-Pacific nations. The goal was to coordinate action and policy with the nations concerned, maintain and deepen American military, political and economic influence and strengthen its bargaining position with the Soviets. General Secretary Gorbachev of the Soviet Union followed up his 1986 Asian-Pacific policy speech in Vladivostok with an important speech delivered last month in Siberia. He raised seven proposals regarding security in the Asian-Pacific region and seized the initiative in positioning himself beneficially as regards each of the major issues facing this region. Western European nations have also become more involved politically and economically in the Asian-Pacific region in an attempt to have a greater effect on international matters in this region.

However, it is Japan that is getting the most attention from its activity in the Asian-Pacific region. Facing a new situation of fierce competition, Japan is carrying out new adjustments and deployments in its Asian-Pacific policy. Because of the complexity of U.S.-Japan relations, Japanese authorities have no choice but to adopt a policy of caution. Thus, they come off as wishy-washy to a certain extent. It appears that for a considerable period Japan is going to have to do its best to protect the status-quo in U.S.-Japan relations. At the same time, it must strive hard to control the positions of South Korea and Taiwan, make use of the positions of Hong Kong and Singapore, build more intimate economic ties with the nations of the East Asian Alliance and adopt a policy that checks and controls China. Japan's intent is to build an East Asian Economic Ring centered around itself by continually strengthening economic force in the Asian-Pacific and also by continually strengthening its economic ties with the nations of Asia and the Southeast Asian nations in particular. Then, it will expand off this foundation into Australia, New Zealand, and Latin America.

#### **The Third World Is Being Polarized in Two Directions**

The law of uneven world economic development applies in the same way to Third World nations. In 1987, the average rate of economic growth for developing nations was 3.1 percent, 6.8 percent in Asia, 2.5 percent in Latin America, and only 1 percent in Africa. The Third World is being polarized in two directions. Development in the Asian region has been fairly rapid, remarkably so for the "Four Little Dragons." In 1987, the economic growth rate of South Korea was 12.2 percent, Taiwan was 11.04 percent, Hong Kong was 13.6 percent, and Singapore was 8.8 percent. This speed of growth exceeds that of Japan which has the fastest growth among developed nations. Although for a period henceforth their speed of economic growth will come down, they will still keep a powerful momentum of development. These newly industrializing nations and regions of Asia, particularly South Korea and Taiwan, have taken advantage of the rise of the Japanese yen and Japan's adjustment of its product mix and massively developed their export trade to occupy U.S. and Japanese markets. In 1987 the total amount of South Korea's exports reached \$46 billion, an historical high. Of these exports, those that went to the United States and Japan increased 31.9 percent and 55.4 percent respectively over the previous year. Every year Taiwan's foreign trade results massively in its favor. By the end of 1987, Taiwan's foreign exchange reserves amounted to \$76 billion—second in the world. The average overall value of national production in Hong Kong and Singapore was \$6,780 and \$6,621 respectively. This approaches the level of developed nations. When South Korea President No Tae-u assumed office he announced that during his term the average overall value of national production would reach \$5,000. South Korea has also clearly proposed that it will join the ranks of the world's developed nations in 1995. The economic development of Thailand and Malaysia has also taken huge leaps that have gained them increased respect. In the last 20 years such Latin American nations as Brazil and Mexico have seen great developments in their economies. It can be predicted that the result of the polarization of Third World nations will be that by the end of this century a few nations and regions will come closer to the levels of the developed nations, some may join the ranks of developed nations and regions, but the economic disparity between most Third World nations and the developed nations will widen further. In the rapidly developing situation of a world science and technology revolution, the economic development of these nations will be confronted with even more difficulties due to low levels of culture, backward science and technology, lack of funds, accumulations of debt, and a lack of talented persons and their being drained away. Many developing nations still must put up with exporting primary grade products at lowered prices and importing finished products at inflated prices. The big drop in crude oil prices that began in 1986 have caused enormous losses to Third World oil-producing nations. The impoverishment of the economies in the majority of the Third World

nations are not being solved, the old international economic order is not being reformed, and this is a destabilizing factor throughout international relations.

China is a developing socialist nation. As the two poles of the Third World diverge, which road will China develop toward? This is a question garnering much attention. I feel that China is now at the crossroads. If we handle ourselves well, our economy could take off at the end of the 1990's and the gap between China and the developed nations could gradually be reduced. If we handle ourselves poorly, the gap between China and the developed nations, and even the newly industrializing nations and regions, will further widen. We must take note of the fact that in the nearly 40 years that we have been building our country we have already created a definite economic base, our science and technology has arrived at a definite level, and we have accumulated valuable experience, positive and negative. In recent years the speed of our economic growth hasn't been low. I should point out that when compared with many other developing nations we are in possession of definite conditions. By the end of this century the possibility is very real that China could achieve an economic take-off and meet its scheduled goal of quadrupling. However, another possibility is very real. We must have a clear understanding of the international environment that confronts us. We must establish strong feelings of urgency and crisis, take hold of reforms in such areas as the economy, politics, education and the society, and do all we can in a fairly short period to administer to and rectify the economy and put it on the track of stable development. Also, we must develop our science and technology and education professions fairly quickly, snatch up world economic competition, and lay a foundation for the next period of great development.

### Three Strategic Theories on National Development, Security

40050085 Shanghai SHIJIE JINGJI DAOBAO  
in Chinese No 11, 7 Nov 88 p 4

[Article by Chen Hongbin 7115-7703 2430, Editor of SHIJIE JINGJI DAOBAO: "A New Strategic Concept of National Development and Security"]

[Text] In the current global trend of reform and readjustment, there are three new concepts regarding the strategy for national development and security worthy of our close attention. Namely, the theory of comprehensive national forces, the theory of building a nation with technologies, and the theory of comprehensive guarantee of security.

### Theory of Comprehensive Forces of a Nation

In the West, theories of national forces had their beginning as early as the end of the previous century, but they were basically theories of using national forces to make war. In other words, such theory advocated that the

military force decided national forces. This type of theory, of course, was the product of the times and was certainly related to and suitable for the circumstances of that time as well.

Today, the nations are in a multi-faceted and comprehensive competition, therefore, this "combative" theory of national forces can no longer reflect the characteristics of the times and the current theory of a comprehensive national force is hence born.

This theory of comprehensive national power may provide us with some important inspirations. For example, although the GNP is a very useful yardstick for gauging the annual total value of all the national products of a country and has become a relatively standardized method of computation internationally, the GNP as an economic indicator is not without shortcomings. Moreover, it is often inappropriately used as an authoritative indicator of the strength and the development level of a nation. If GNP is allowed to become the only measure of national power, not only will it be inconducive to an objective measuring and comparing the real strength of a nation, it will also directly affect our judgment in adopting a correct strategy of national development.

### Theory of Building a Nation With Technologies

In applying the above-mentioned various theories of national forces, the theory of building a nation with technologies also refers to the theory of a nation's scientific and technological strength, that is, to advocate using science and technology as the core of comprehensive national power. If this viewpoint had not been overly emphasized, it would easily be said that this important strategic idea is at least suitable for this age of vigorous revolutions of new technologies.

The power of a nation includes many essential factors, such as territory, population, natural resources, economic power, defensive power, spiritual power, etc. The basis for the theory of building a nation with technologies or science and technological theory of national power is the fact that a nation's science and technology are not only an important factor of its power but also the key factor influencing all the other national strength.

Science and technological strength influences economic strength, strength of national defense, even the spirit of the people. This appears to be easy to understand. Does it also influence a nation's territory, resources, and population, which are its natural gifts? We must say it not only influences these factors, in some nations, it also functions as a "facilitator" of the other national strength.

When we speak of building a nation with technologies, Japan often comes to our mind. In fact, Japan is the first to use technology to build the nation. It is a striking representation of the success of the theory, yet Japan does not have a monopoly of this strategic idea of national development. The number of countries using

the development of science and technology as the core strategy to bring about the realization of national strength is increasing all over the world.

#### **Theory of Comprehensive Security Protection**

Comprehensive strategy of security protection was first proposed by Prime Minister Ohira of Japan at the Policy Research Conference in 1980. On the one hand, it emphasizes the comprehensive, multi-faceted, and inter-related characteristic of a threat to security; on the other hand, it also emphasizes the necessity of using comprehensive methods to deal with the threat. It means a comprehensive use of political, military, economic, diplomatic, and cultural strength, through coordination and complementing, so as to guarantee the security of the nation.

This great systemic concept of national security also has broad implications. It prevents people from one-sidedly viewing national security guarantee as a mere military security guarantee. It alerts people that the possibility of a national security crisis not only can come from an external military threat, but can also come from internal economic, political and even morale crises. This is especially true in the modern world. The possibility of a nation to collapse simultaneously from within and without due to internal corruption and divisiveness far exceeds the possibility of collapse due to external military conquest. For this reason, one definitely cannot feel safe and sit back and relax just because there is no immediate threat of a war. One must be mindful of the threat, be prepared for it with comprehensive counter-measures.



**Varying Views of *He Shang* Emphasize Country's Culture Not All Negative**

40050097 Beijing RENMIN RIBAO in Chinese  
18 Nov 88 p 8

[Article by Fan Ceng 5400 2582: "Differences of Opinion on *He Shang* Portend Cultural Diversification in China"]

[Text] One evening I strolled to Liu Zaifu's [0491 0375 1788] house. He told me that Su Xiaokang [5685 2556 1660] was there a moment ago and that Su Xiaokang thought I did not approve of *He Shang*. There is no avoiding people whom you do not want to meet. I ran into Chen Rong [6188 1369] on the train bound for Jiangsu. She said ominously, "Su Xiaokang is on this train too. You will bump into each other." Sure enough, we did. There was an intelligentsia in the railroad car, made up of the unconventional Chen Rong, the humorous Wu Taichang [0702 3141 2490], the passionate Su Xiaokang, the stubborn Fan Ceng, and two level-headed newspapermen, Fan Rongkang [5400 2837 1660] and Miao Junjie [4924 0193 2638]. We argued, differed, agreed to differ, concurred, reserved judgement, and joked. Amid this verbal sparring, one could not be too lonely. Nor was one aware of the mountains and rivers, clouds and moon outside.

I began by stating to Su Xiaokang the position of Dr Yang Chen-ning [[2799 2182 1337] and myself. *He Shang* took China by storm the moment it appeared. Witness the "*He Shang* effect" and "*He Shang* fever." That shows its impact cannot be taken slightly. A young mind that could take in the parade of dynasties of Chinese history, the broad sweep of successes and failures, of strengths and weaknesses of all nations cannot but be described as visionary. The achievement of *He Shang* is that it encourages this generation of Chinese to think about the country and nation. But its perspective is clearly anti-tradition. The targets of anti-tradition, which happen to be most severely criticized in *He Shang*, are the Huang He civilization, the Great Wall civilization, and the dragon civilization, exactly those things most symbolic of the Chinese nation. And any symbol, being ill-defined, is open to different interpretations. Thus symbolic figures like Hamlet in English fiction and symbolic relics like the sphinx in Egyptian sculpture are shrouded in mystery: people just cannot agree on what they mean. Ask 1,000 readers and you have 1,000 Hamlets; ask 1,000 visitors and you have 1,000 sphinxes. To Jia Yi, the Great Wall "deterred ancient non-Han nationalities from marching southward to herd horses." To Liu Zaifu, it is the "backbone of the nation." Cui Senmao [1508 2773 5399] wants to create a "Great Wall style of painting." Su Xiaokang asked, "Oh, the Great Wall, why do we still have to sing your praises?" There the towering Great Wall stands in silence, untouched by praise or condemnation. And it will continue to stand for millennia to come. Astronauts will continue to admire it from the moon and mankind will continue to observe and evaluate it from different angles countless times

because it is a great creation. Mr Yang Chen-ning thinks that a piece of cultural legacy that encompasses millennia of history and embodies the spirit of hundreds of millions of people represents a complexity whose essence must be differentiated from its dregs. It would be a pity if we repudiate it totally. There are many good things in traditional Chinese culture, such as the educational philosophy that students should be taught in accordance with individual aptitudes, education without distinction, the idea of reviewing the past to understand the present, and learning in order to think. All this contains within them a lot that makes sense.

Su Xiaokang listened patiently. He is a born philosopher who is deep in thought all the time. He is also blessed with an eloquence that conquers all. He told me he sees a general decline in Chinese culture, with but fragments of it still flickering the glory of old. To which I responded that there is a possibility that Chinese culture as a whole may revive, that even what he called fragments may be given a new lease on life in the new era. I said to him, "You want a total blood transfusion, whereas I advocate increasing the body's own ability to manufacture blood. Mr Lu Xun said back then, 'If you complain the room is too dark and suggest making a window, nobody would agree. But if you say you want to remove the roof, everybody would come around and agree to make a window.'" I told Su Xiaokang that I too am among those who want to make a window... and that the ultimate goal of people like himself must also be to make a window. Su Xiaokang burst out laughing. To signify agreement? Disagreement? Or did he think the whole discussion was beneath him? "This fellow is not worth talking to." In short, when people observe things from different angles, they do not necessarily have to come to blows. The coexistence of different theories of knowledge and methodologies can only create a more harmonious, healthy psychological climate in the academic and artistic communities.

We all expect the national spirit to diversify today and in the future, with the Yanan spirit, Lei Feng spirit, Olympic spirit, *He Shang* spirit, Neo-Confucian spirit, and the spirit of the individual household forming a chorus of our time on the stage of history. Do not imagine that a "company of voices is unpleasant to the ear." In fact, a nation's real crisis is excessive cultural homogeneity. Harmony reigned in our railroad car precisely because of this diverse mix of intellectuals.

The group of intellectuals scattered. I got off alone at Kunshan. As I walked along the small rural lane that fall day, I suddenly saw in my mind's eye Mr Gu Tinglin, the great democratic-minded scholar of Kunshan who lived in the late Ming and early Qing period. He rode up to me on a thin horse, looking rather like Su Xiaokang, lean, slight, and equally charismatic. I was reminded of Gu Tinglin's eternal words: "Every man must share responsibility for the fate of his nation." My heart jumped, my shoulder slumped. I was so moved that tears welled up in my eyes as I gazed longingly at the faraway train.

**Political, Cultural Significance of Allegorical  
Satire Reviewed**  
40050091 Beijing GUANGMING RIBAO in Chinese  
4 Nov 88 p 3

[Article by Liu Zaifu 0491 0375 1788: "On Bing Zai"]

[Text] After reading Han Shaogong's [7281 1421 0501], "Daddy, Daddy, Daddy" 2 years ago, I was struck with the idea of writing an article titled, "On Bing Zai." However, for numerous unforeseen reasons, I have procrastinated until now.

"Bing Zai" already enjoys some renown in the Chinese world of letters, though far from that of "Ah Q." However, I do believe that Bing Zai's reputation will become greater and greater, and people will come to realize that Han Shaogong's discovery of Bing Zai was very important artistically.

Bing Zai is the hero of "Daddy, Daddy, Daddy." He is a villager who lived out a humdrum existence at Eshui in Xiangshan as a simple-minded little old man who had never grown up. This lunkhead's most distinctive feature was his ability to say just one positive and one negative phrase, namely, "daddy, daddy, daddy," and "mama f—ker." These two phrases encompassed everything, explained everything, coped with everything, and might be said to be a single phrase worth countless phrases. At the very beginning, "Daddy, Daddy, Daddy" introduces the characteristics of Bing Zai's spirit.

When he was born, he slept with his eyes closed for 2 days and 2 nights, neither eating nor drinking, as though dead, and scaring people half to death. It was not until the third day that he cried for the first time. When he was able to crawl around on the ground, the teasing by the villagers taught him how to deal with life. He learned two phrases very quickly. One was "daddy, daddy, daddy," and the other was "mama f—ker." Though this second phrase was uncouth, coming from a child it had no real meaning. It might be a symbol of something. After 3 to 5 years, and after another 7 or 8 years, he was still able to speak only these two phrases, and his eyes lacked sparkle, he moved sluggishly, and his lopsided skull was indeed very large. It looked like a green-skinned gourd posing as a skull filled with some strange substance. After he had eaten, one or two flecks of food stained the corners of his mouth, and his chest shone with oil. He would bob around in all directions quizzically, and when he spied someone, no matter whether male or female, young or old, he would call out warmly, "daddy." Were you to glare at him, he would also understand. He would raise his eyelids to a certain spot on the top of your head, slowly roll back his eyes till the whites showed, and murmur, "mama f—ker," then drop his head and scurry away.

This is to say that all the feelings, and all the attitudes of this lunkhead were congealed in these two phrases. In other words, his whole life could be fully symbolized in

"daddy, daddy, daddy—mama f—ker," one positive and one negative, one yang and the other yin. "In Bing Zai's large head, the world was two large opposing pieces," and groups of people were two large opposing camps. Everything that he perceived as being positive was good, and he honored and paid respect to it with "daddy, daddy, daddy." Whatever he deemed to be negative was bad, and he rejected it and condemned it with "mama f—ker." One might say that this was a distinction between two different things, and a differentiation between love and hate, or one might say it was showing his colors, and taking a clear-cut stand.

However, his mode of thinking was extremely simple, extremely crude, and extremely disgusting. His mode of thinking lay between the two extremes of extraordinary simplicity and extraordinary vulgarity. These two extremes were positively opposite to each other, did not co-relate with each other, and were not made up of each other. Between the two extremes, there was no middle value; the two were positively antithetical, completely separated, and "had nothing to do with each other whatsoever." We might capsulize this mode of thinking as a black or white "two-value judgment." Both the positive value and the negative value were lacking in the extreme.

In short, Bing Zai's mode of thinking was a lopsided and abnormal mode of thinking.

However, such a lopsided and abnormal mode of thinking did not by any means apply to just this little old man in Chicken Head Village, who had never grown up. It also applied to the villagers of Chicken Head Village. The mode of thinking of the elders and brethern of Chicken Head Village, Bing Zai's birthplace, also hovered between the two extraordinarily crude divination symbols of yin and yang. When faced with calamity, they even pinned their hopes on Bing Zai's judgment, regarding Bing Zai as a spirit who could save them from danger and disaster. Their treatment of Bing Zai also showed the application of the extremely polarized two-value judgment. In ordinary times, they despised him and called him "cur." They would have liked to push him into the ground or even to have killed him as a sacrifice. In times of calamity (when they wanted to use him), they revered him to the sky, even calling him "young gentleman Bing," "Uncle Bing," and "Bing the immortal." Their model of thinking was a reproduction and an extension of Bing Zai's mode of thinking. They too divided the world into two large antithetical parts. In addition to "Chicken Head Village" where they lived, they knew only about "Chicken Tail Village" (they venomously termed it "Cock Village") with which they feuded and toward which they felt an inveterate hatred. Though the villagers in Chicken Tail Village were neighbors, the villagers in Chicken Head Village could not abide them, and positively could not exist with or live in harmony with them.

Obviously, the villagers of Chicken Head Village frequently poked fun at Bing Zai. In fact, however, they themselves were Bing Zai. It was at themselves that they poked fun. This was because ever since Bing Zai had come into the world, it was through "teasing by the people in the village that he learned how to deal with the world." Moreover, it was from them that he had also "very quickly" learned the two phrases, "daddy, daddy, daddy," and "mama f—ker." This meant that Bing Zai's lopsided, abnormal mode of thinking had been spawned by the special cultural climate of Chicken Head Village, and he was a product of this culture. Such a mode of thinking was not just a cultural accretion; it had always existed and perplexed all the people of Chicken Head Village. In the person of "Bing Zai," time had lost its original meaning, and even though "his appearance had markedly aged, and faint wrinkles appeared on his forehead," Bing Zai was still only as tall as a basket carried on a peasant's back, and he still wore the open crotch red print pants that children wore. By comparison with the concept of flow and change of time, Bing Zai's stagnation and lack of change showed this mode of thinking as never changing in the endless passage of time, and his remaining in a primitive infantile state from which it was difficult to move to maturity. Indeed, as the novel says, the "two phrases" that embodied Bing Zai's mode of thinking...can fully serve as a symbol." Furthermore, Bing Zai was himself a symbol, both a historical one and a contemporary one, and a preposterous yet real symbol of the Chinese people and individuals. Such a black or white model of thinking having "two-value judgments" is pervasive in China and is a cultural phenomenon with profoundly tragic implications.

Han Shaogong not only discovered Bing Zai's "two-value judgment" mode of thinking, but he also discovered that this mode of thinking concealed a kind of psychological violence. For example, whenever Bing Zai was oppressed by his adversaries, he would become "especially furious....His eyes would roll back till nothing but the whites showed, and the blue veins on his forehead would stand out separately. He would bite his own hands and rumple his own hair like a mad man." When he could not get the better of a small child, he would build up hatred in his heart, wait until the child had gone, and then "treacherously stomp violently on the child's bamboo hat." When Bing Zai vented his psychological energy in violence against society, it was not frightening at all because he was a weakling. Had he been strong, and the embodiment of strength, the consequences would have been too terrible to be imagined. For example, when the men of Chicken Head Village transformed their psychological violence into social violence, it turned into a ruthless slaughter. They would both kill and be killed, and they would destroy people and be destroyed by them. They would launch warfare against neighboring villages for no reason at all, and the reasons they gave for going to war were absolutely absurd. This group of ignoramuses and brutes was even more fearsome. Take a look at the abnormal hatred of

the villagers of Chicken Head Village and you will understand: They cut the corpses of their adversaries into pieces, then mixed them with pork, fried them, and ate them. They also forced everyone to eat them. To refuse to eat them risked condemnation as one who had forgotten one's own origins, and constituted an offense for which even death could not atone. The black and white two-value judgment led to the conclusion of "one person eating another." Had such a conclusion halted at the thinking stage, there would be little cause for criticism (and it might have been regarded as a mode of thinking that is sometimes also necessary), but when manifested in sudden and blind violence, extremely brutal consequences grew out of it. The artistic portrayal of humans eating human flesh and dogs eating human flesh used in "Daddy, Daddy, Daddy" is an extremely successful demonstration of this brutal outcome.

The psychological foundation for the Bing Zai mode of abnormal thinking is cowardice and fear. The scale of values of people such as he is narrow, cowardice and selfish. They make distinctions in terms of themselves. Everything of benefit to themselves is included within the ranks of "Daddy, Daddy, Daddy," and everything not of benefit to themselves is put in the "mama f—ker" corps. The state of mind of Bing Zai's fellow villagers was one of extreme cowardice and extreme abnormality. When they decided to kill Bing Zai and offer him as a sacrifice to the spirits, they heard a thunder clap that made them ill at ease, and they immediately abandoned their plans for the slaughter. They projected their own ignorance, conservatism, and backwardness as anger against others, deciding that it was Chicken Tail Village that blocked their way to the future. They were poverty stricken in the extreme, and they were fragile in the extreme. From their innermost being, they regarded others with hostility, and felt that others likewise regarded them with hostility. Thus, they imagined an enemy, then they turned their imagination into reality, and started a cruel and ferocious war without rhyme or reason. Their tragic heroism was really an expression of weakness and cowardice.

More sadly, Bing Zai and his fellow villagers did not know that they had an abnormal mode of thinking that set up "imaginary enemies." They were accustomed to life in a walled mountain village outside the main stream of civilization where generation after generation lived out a humdrum existence in isolation. Their life outside the circle of civilization was totally as "a people beyond the pale of civilization," yet they had self-respect, self-pride, self-love, and self-importance. Should a person appear among them who acted contrary to mountain village traditions, or who became suspect by mountain village society, that person would certainly be condemned and be regarded as a heretic, and naturally he would be put into the "mama f—ker" ranks. Bing Zai's father, Delong, was a singer of mountain songs and a storyteller who could not bear to spend his life in the ignorance of Chicken Head Village. So he left to try to

become "a person within the pale of civilization." However, everything he did was regarded as alien by the villagers in Chicken Tail Village, and he became the most despised of the "people outside the pale." On her deathbed, Bing Zai's mother exhorted Bing Zai to "kill him." Not only was she giving vent to personal spite, but she also reflected the common state of mind of the villagers in "Chicken Head Village." The use of ignorance to kill knowledge, and the use of savagery to kill civilization was bound to be the choice of Bing Zai and his fellow villagers.

This offers a great deal of food for thought. In superficial terms, Bing Zai's father should belong to the "daddy, daddy, daddy" ranks, and Bing Zai's mother should naturally belong to the "mama" ranks. In the novel, however, Bing Zai's father was condemned, rejected, and regarded as a negative value by the villagers of Chicken Head village, and was placed in the category of the "mama f—kers." On the other hand, because she was a staunch supporter of Chicken Head Village's culture, and even constantly wanted Bing Zai's father killed, Bing Zai's mother became a loyal member of the "daddy, daddy, daddy" corps. On this point, the novel employs a powerful counter-satire, stingingly pointing out that such simple and crude "two-value judgment" are contradictory, and that they reverse and confound right and wrong. Likewise, the attitude toward Bing Zai of the villagers in Chicken Head Village, using him for divination, and praying to him, then wantonly disgracing him and ridiculing him, thereby using "two-value judgment" in the judging of "two-value judgment" just showed that this mode of thinking had no validity in itself, but always caused people to sink into an incredible and absurd miasma.

Intriguingly, the reading of "Daddy, Daddy, Daddy" makes one want to think about oneself, and especially about one's past. I feel that Han Shaogong helps us discover life and find ourselves.

I discovered that I had been Bing Zai. I feel that numerous readers who have positive values will discover that they have also been Bing Zai. Not only do we have certain Bing Zai-like traces in us, but one might say that in terms of our modes of thinking, our lives have been simple and vulgar like Bing Zai's.

Have we not described people, who are extraordinarily varied and complex, in black and white terms as princely or mean, benevolent or malevolent, good or bad, leftists or rights, revolutionary or counterrevolutionary, or accused them of harboring ideas in the nature of contradictions between ourselves and our class enemies, versus simple contradictions among the people. Have we not then treated them in different ways and designated them targets for attack or subjects to unite with? Good people have been made completely good, and bad people completely bad; leftists have been made absolutely left, and rightists absolutely right.

Such a mode of thinking frequently generates a "dog eat dog" philosophy. At every turn, it is "you die so I can live," or at every turn it is a declaration that "either the east wind prevails over the west wind, or the west wind prevails over the east wind." Finally, the sole standard by which we judge right or wrong comes to be whether we are opposed by an enemy, i.e., whomever the enemy opposes, we support, and whomever the enemy supports, we oppose. However, the so-called enemy is often an imaginary enemy, i.e., an enemy who does not basically exist. The daily babble about taking class struggle as the key link is actually mostly taking hallucinations as the key link.

The mode of thinking of "daddy, daddy, daddy—mama f—ker" is a crude and primitive mode of thinking. In his *History of Thought in Ancient China*, Li Zehou [2621 3419 0624] said, "Cultural anthropology data show that it is possible to analyze from the myths of any primitive society that it is made up primarily of positive and negative elements, and that power serves as a basic motivating force, direction, or feature. The primitive opposing concepts in Chinese antiquity of day and night, sun and moon, male and female were probably capsulized as yin and yang only in the final stage. However, yin and yang never did take on the abstract character of the 'contradictions' of which we speak today. Yin and yang always retained a fairly factual and concrete realism and was never completely depicted in abstract terms as being in the category of purely intellectual speculative logic." The structure of Bing Zai's thinking still consists of only positive and negative two-value judgment of a primitive nature. Bing Zai's fellow villagers suddenly realized that Bing Zai's positive and negative judgments "oddly are the yin and the yang trigrams used in divination," which, though they pre-date Bing Zai somewhat, still belong to the category of primitive thinking (just the "final stage"), and are still a long way from the purely intellectual speculation of "contradictions."

The reason Bing Zai is an "old man who has never grown up" stems from his thinking having stopped in a primitive stage. Basically, his was a cultural abnormality—a culturally primitive and benighted state. Such a state is a common one (the deep significance that Bing Zai portrays co-relates to this), and it is entirely a state created by China's traditional culture. In the overall scheme of China's traditional culture, traditional politics was actually the politics of tutelage, and such politics are actually daddy-style politics, whereby the rules for running a country and running a home are amazingly the same, and national discipline is an extension of family discipline, state officials being "parent officials." Long molded by the country's politics of tutelage, the people were unable to take charge of their own lives, and were unable to organize themselves. They performed the roles required by their "status," like children acting within the limits laid down by their parents. Consequently, they lost their individual character, becoming like children who had not grown up, always listening to their parents' reminders, admonitions, advice, and guidance, and



being unable to mature by themselves. In social group terms, they never grew up. So, to a certain extent, they might be considered to be little old people who never grew up.

Political tutelage is one reason for not being able to reach maturity, and moral tutelage is another. China's moral tutelage was closely related to the structure of Bing Zai's thinking. China's ancient sages placed extreme emphasis on moral tutelage, even believing that morals were paramount and that morals were omnipotent. However, the crux of morals lay in distinguishing between good and evil, rewarding good conduct and punishing evil conduct. For this reason, the moral teachings of Confucius always emphasized the distinction between a princely person and a base person. Complex human beings were put into one of two categories, either princely people or base people. "Right Conduct" in the *Analects of Confucius* says that "the princely person is catholic rather than partisan; the base person is partisan rather than catholic." The *Principles of Perfect Virtue* state that "the princely person cherishes the moral, while the base person cherishes the vulgar; the princely person cherishes punishment while the base person cherishes leniency....The princely person understands what is in the public interest; the base person understands what is in his self interest." These distinctions between princely persons and base persons influenced subsequent cultural concepts, with the difference that subsequent thinkers combined these crude distinctions with a body of severe criminal law, and used force in the promotion of a feudal morality based on reason. This had the contrary result of helping create a "man eating" system of ritualized rule. The book titled, *Tradition and the Chinese* that I coauthored with Lin Gang [2651 1511] criticized this dualistic "princely person-base person" distinction, as well as the coercive promotion of this method of thinking, and the consequences of morality taking the place of the law that resulted from moral tutelage. In this book, we said, "Under ordinary circumstances, morality is simply the force of coercive public opinion; it only teaches people to distinguish between good and evil, and it does not force people to make choices; hence, it is an expression of human conscience. However, when good and evil are made the basic standard for social life and national organization, morality quickly sheds its gentle and refined outer garments. Then good and evil are no longer an appeal to conscience but an appeal to authority. The reason this is so is not complex. When morality is enforced only by ordinary social opinion, people regard evil behavior, i.e., behavior in violation of morality, as human weakness, and censure it through public opinion. However, when morality expressed in the rubrics of loyalty, filial piety, righteousness, modesty, and shame become a social way of life, and the state is organized in terms of the 'constant obligations of morality,' evil conduct becomes the mortal enemy of good, and it simultaneously becomes the sole unstable force threatening the survival of and causing the death of good, which has to be eradicated through the use of draconian laws." The reason for Lu Xun's abomination and rejection of China's morality of love and righteousness, and the reason he termed it a "man eating" thing was that in China it had become popularized as a coercive ruling

force, even to the point of swallowing up needed laws. This shows that the dualism of the "princely person-base person distinctions" would have been of no concern had it halted at the level of intellectual speculation, but as soon as it became linked to authority or social force, it created a very great catastrophe. Bing Zai's "daddy, daddy, daddy—mama f—ker" is also a "princely person-base person" distinction. It was simply that Bing Zai had no education, so he expressed it more vulgarly.

By making the "princely person-base person," good and evil bifurcation, a basic principle for social life and organization of the country, China's feudal society committed the "vile" crime of not providing even the slightest concept of law. By this is meant that violation of certain moral teachings of the Confucianists was regarded as an offense against the nation's constant obligations of morality, and violators were consigned to the ranks of evildoers and never able to rehabilitate themselves. It was with this spiritual oppression as a background that at the very beginning of the "May Fourth" Movement, Mr. Lu Xun stripped away the mask in his *Diary of a Mad Man*. When the mad man trampled under foot the cash flow journal that Mr. Gu Jiu had been keeping for many years, it could be predicted that he would be accused of having committed one of the greatest crimes, and then be eaten up in an "oh so justifiable" way. The mad man knew this very well. He said, "I also understood their cleverness, ...they decided to label me a mad man, which would ruin my future. No matter how well-behaved I might become, no one would likely show any understanding. This is precisely the method that the sharecropper said everyone used to destroy an evildoer." From this incident, the mad man realized that so called goodness and badness, benevolence and malevolence was defined entirely by the person in position to destroy another. "Just as soon as they turn against a person, they say he is an evildoer....No matter how good a person may be, if he utters the slightest back talk," he becomes a bad person and an evildoer guilty of a crime. One can always find some sort of explanation which is, after all, the byword of those who destroy others. Lu Xun understood this in a profound way. He said, "I used to suppose that people were shot or put in prison because they were guilty of a crime. Now I know that many of them ended up committing a crime only after they had first been made to appear 'vile.'" ("Vile Crimes. Nothing More Collection"). Lu Xun also called out sadly: "China has after all, the most ancient civilization, and it is a nation that emphasizes humanitarianism. It has always placed extraordinary emphasis on man. When people were humiliated and put to death occasionally, it was because they had not acted like people. Those who were put to death by emperors were 'traitors,' those 'suppressed' by armies were 'bandits,' and those killed by executioners were 'criminals.'" ("Theft of a Target," Junfeng Yuetan"). This is the finest explanation of being "labeled an evildoer." Lu Xun made the profound discovery that in China, not

only are people simplistically divided into good people and bad people, philanthropists and evildoers, but that there are two even worse situations, namely: 1) Determination of who is a good person and who is a bad person is at the discretion of the destroyer of people; the yardstick for measuring good and evil is made by those who hold power. 2) Those termed "evildoers" will be "eaten up." They are not just evildoers; they are not people. Hence they may be humiliated and put to death at will, and this is consistent with the teachings of the ancient sages. Lu Xun's unmasking of feudal crimes makes us think of Bing Zai's distinctions between "daddy, daddy, daddy, and mama f—kers." Once linked to authoritarianism, and once linked to social delusions an artificial calamity is created. Han Shaogong discovered not only Bing Zai, he also discovered the serious consequences produced by the Bing Zai style of thinking.

The discovery of Bing Zai is for the purpose of transforming Bing Zai just as the discovery of Ah Q was for the purpose of transforming Ah Q.

Discovery of Bing Zai's mode of thinking is for the purpose of rejecting Bing Zai's mode of thinking. Discovery of Bing Zai's philosophy is naturally for the purpose of repudiating Bing Zai's philosophy. The seeds of Ah Q go on and on. But will the seeds of Bing Zai also go on and on? I believe there is no need for us to be pessimistic about his. Since we have been able to discover Ah Q and Bing Zai, we have the power to put an end to the Ah Qs and Bing Zais. So long as we are willing to be self-questioning, no longer take pride in the mode of thinking of Ah Q and of Bing Zai, and look upon them as being simplistic and crude, there will always be hope.

## NATIONAL AFFAIRS, POLICY

**Zhang Yanning on Enterprise Mergers**  
40060167 Beijing QIYE GUANLI [ENTERPRISE  
MANAGEMENT] in Chinese No 11, pp 4-6

[Article by Zhang Yanning 1728 1750 1337, vice minister for the State Commission for the Restructuring of the Economic System: "Urging Enterprises To Merge, Raising Economic Returns"—first paragraph is source-supplied introduction]

[Text] Zhang Yanning, vice minister for the State Commission for the Restructuring of the Economic System, talked to our reporter on the question of enterprise mergers, expressing the hope that this matter will be earnestly taken in hand everywhere as an important component of efforts to pursue the reform in greater depth.

Zhang Yanning said that China's economic development has for a long time been beset with several difficulties: First, low economic returns from enterprises, and many enterprises operating at a loss. In the current budget alone, 6,364 enterprises, or 17 percent of their total number, are running at a loss. Accumulated losses for the period from January to July amounted to 3.637 billion yuan. Many of these enterprises have been unprofitable for a long time and have relied on subsidies for their continued existence. Second, production and enterprise structures are unsound because they lack regulatory mechanisms, and whatever old assets the enterprises possess have never been replaced. Some sectors of industry that ought to be specialized and operate with large-scale production consist mostly of small enterprises which show unsatisfactory returns. China's automobile industry has 114 main assembly plants, and somewhat over 80 enterprises producing less than 1,000 cars per year. They cannot possibly attain an economically justified volume; their costs are high and returns low. Third, there is at the same time much idle capital and a shortage of capital. On the one hand enterprises that need development are short of capital, and on the other hand one third of available assets are left idle or half idle. There are many reasons for the above-mentioned three kinds of difficulties, the most fundamental reason is that no effective mechanism has been set up to promote the transfer or conversion of accumulated assets.

The measures that had been taken in the past to solve these problems were to close, suspend, merge, and retool enterprises, but results were not good because these measures mainly relied on administrative action. As the reform was pursued in greater depth, especially after initiation of the contract management system, mergers of enterprises occurred in many regions, which then started to set up an economic mechanism to induce circulation of accumulated assets, and in this way found a new way to solve these difficulties.

As we see from the reports from various localities, most enterprise mergers in China show the following peculiarities:

1. They occur at an opportune time. China's enterprise reform is providing a favorable opportunity for a rapid development of enterprise mergers. First, having gained decision-making power, enterprises can decide on their own whether to expand their strength by merger. Second, profits that enterprises were entitled to retain in the last few years had increased, so that their own capital increased, which in turn made for favorable conditions for mergers. Third, development of the commodity economy and the growth of markets created a state of competition, and fierce competition brought inferior enterprises into the market as objects of mergers. Fourth, the quality of entrepreneurs has improved, so that good enterprises have strong developmental aspirations. In view of all these conditions, the present is indeed an opportune time for China's enterprise mergers. According to incomplete statistics, over 1,500 enterprises have by now undergone mergers. Of these, the provinces of Henan, Guangdong, Jiangsu, Hebei, and Sichuan have each had over 100 cases of enterprise mergers.

2. They assume a variety of patterns. In conducting enterprises mergers, different localities, starting out from the particular realities of their regions, have adopted different forms of mergers. In general, there are mainly the following types: One type are mergers with the assumption of liabilities. The two merging parties merge accounts and merge assets. Debts and losses of the enterprise that is being taken over are assumed, and will have to be dealt with and made good by the enterprise that is taking over, which latter enterprise will gain all the property of the enterprise being taken over, so that all assets will become one entity. In Chongqing eight pairs of enterprises have merged in this manner. The enterprises that bought out the others spent 4 million yuan and gained over 3 million yuan in assets and over 50 mu of manufacturing sites. In one of these cases, the takeover enterprise had insufficient funds and paid off the 1 million yuan of the purchase price in two installments. Another form of merger is by acquiring a controlling number of shares. In that case one enterprise will buy a majority of shares of another enterprise, so that it will hold a controlling interest and thus achieve a merger. Yet another form are mergers by transfer. This is carrying out, by mutual agreement, a simple transfer between enterprises owned by the whole people, so that assets and accounts of the enterprises are merged.

3. Active encouragement by the government. As no market has yet been set up for enterprise mergers, one reason why enterprise mergers do occur, and indeed are rapidly developing, is that the merger movement is inseparably linked with the active guidance, imparting of information, and coordination on the part of the government. An early start was made at Baoding, where government action mainly consisted of: First, involving

itself in the movement, acting as go-between, and building bridges between parties, thereby actively promoting mergers. Second, undertaking assessment of assets and feasibility studies, thus supporting enterprise mergers that were in line with the developmental plan and with the structural readjustment in industry. Third, taking direct remedial action if the parties willing to merge met with difficulties, particularly if they met with obstructing forces. Fourth, intensifying effective ideological work among staff and workers, especially cadres, in enterprises which were to be taken over in the merger, to calm anxieties. In the cities of Chengdu, Chongqing, Wuhan, Nanchang, Baoding, Fuzhou, Qingdao, and Beijing, policies and provisions were adopted for the merger or auctioning of enterprises, to gradually regularize enterprise merger activities.

4. Starting to assume the character of market transactions. Wuhan and Chengdu have already established markets for property transactions or enterprise merger markets. Up to now, 11 transactions have been completed at Wuhan through the medium of the merger market. In Chengdu nine pairs of enterprises have contracted and merged through the medium of the property market. Experiences at various places indicate that enterprise mergers are already playing a positive role: First, they have enabled many enterprises to turn their unprofitable operations into profitable ones. According to statistics covering eight provinces and municipalities, among the 557 enterprises taken over in mergers, 470 had operated at a loss, and of these 405, i.e. 86 percent, were able to turn their unprofitable operations into profitable ones. Second, viewing the situation as a whole, we see that enterprise mergers have raised the utilization ratio. According to statistics, one-quarter to one-third of all assets in China are idle or partially idle. Through enterprise mergers these assets can become means for sound enterprises to further their development. At the start of 1987, the Chongqing Main Ramie Textile Mill merged with the Chongqing Nanan Textile Mill and thereby reactivated over 2 million yuan of assets, which formerly had returned hardly any profits for a long time, also obtained 50 mu of land, which enabled the Nanan Textile Mill to get out of the red the very same year, and which at the same time enabled the Nanan Mill to increase spinning capacity from 12,000 to 30,000 spindles, while saving itself the expense of 50 million yuan of investment costs. Third, enterprise mergers encouraged the realignment of accumulated assets and thus improve enterprise structures and the industrial structure. In 1985, the Shenyang Motor Vehicle Engine Plant took over the Hongnong Machinery Plant, the Shenyang Sewing Machine Manufacturing Works, and the Shenyang Die-Casting Plant by merger, thereby increasing its fixed assets from 13.85 million to 46.66 million yuan, expanding its plant site from 36,000 to 140,000 square meters, increasing its staff and workers from 1,100 to 4,226 persons, and increasing its production capacity correspondingly from 9,000 to over 30,000 engines. This solved most of the developmental problems of the Shenyang automobile industry and at the same time eliminated three enterprises that had engaged in overproduction.

5. Enterprise mergers also broke with the "three no changes" restriction by developing enterprise groups, thereby enhancing international competitiveness. Members of the Central Committee and government leadership are very much in favor of developing enterprise groups. At present, it is mainly the "three no changes" system that hinders the development of enterprise groups. The Capital Iron and Steel Complex developed an enterprise group through mergers and provided one experience of breaking out of the "three no changes" situation. Up to the present, the Capital Iron and Steel Complex acquired in a variety of merger patterns over 30 enterprises, to form a large group of enterprises in a lateral combination of metallurgical, machine manufacturing, electronic, and construction trades. If China would form several tens of large groups like the Capital Iron and Steel Complex by means of mergers or in some shareholding system, it would certainly contribute in an important way toward China's economic development with regard to the international competition.

6. On completion of an enterprise merger, the superior enterprise will introduce its enterprise spirit, formed over the years, such as its managerial ideology, standards of conduct, and traditional workstyle, to the inferior enterprise, impart a new style and features, and enhance the sense of cohesion in the enterprise. At the same time, the superior enterprise will use its managerial mechanism to transform the inferior enterprise and infuse a new vitality.

Zhang Yanning emphasized that promoting development of enterprise mergers will require earnest study and resolution of several questions. First, enterprise mergers must be accomplished in principle against remuneration. Because China's present system of organization determines that the different ownership representatives are different interest subjects, mergers of the type of mere transfers will hardly be possible beyond the sphere of departments and regions. Second, the method of pricing must be determined according to the differing circumstances of the enterprises. There are now the following four ways to determine a low current value of the enterprise to be taken over by merger: 1) according to the original value of the assets; 2) according to the net worth of the assets; 3) according to the replacement value of the assets; and 4) according to the anticipated value of the assets. Different regions may decide to adopt different pricing methods according to the different circumstances of the enterprises. Third, the problem of repaying bank loans used to purchase enterprise assets. There are now two methods: One is that some mergers may be regarded in the same way as technological transformations, so that if enterprise assets are bought with bank loans, repayment may be made either before or after tax payment. If repayment is made before taxes are paid, the assets are

state assets, if repayment is made after all taxes are paid, the assets are enterprise assets. Another method has been decreed in some regions: If bank loans are used to buy enterprise property, repayment has to be made after taxes have been paid. According to our thinking, the matter of repaying bank loans which had been used to buy enterprise property must be combined with the reform of the tax system. Enterprises that have already implemented the separation of tax and profits and that repay loans after tax, must also repay after tax payment the loans that have been used to take over an enterprise by merger. Enterprises that have not yet implemented the separation of tax and profits and the repayment of loans after tax, may repay loans before tax payment. Whatever method of repayment is used, in all cases the jurisdictional relationship of the newly acquired property must be given consideration and may be dealt with according to the separate accounts system of the "Regulations Governing Contractual Undertakings." Fourth, the question of who is entitled to the income from the sale of enterprise property. This question is very clear on principle, but in actual implementation there are still some questions to be studied. Primarily, in the case of enterprises owned by the whole people, who is to represent the owner, is it the local government or the central government? Is it the department in overall charge or the one in charge of the specific business operations? Starting out from today's realities, the income from the transfer of property of an enterprise of the whole people belongs to the finance authority at the same level as the enterprise; the owner is represented by the government at that particular level. However, the income must be allocated to a special account, and should only be used to pay for the enterprise merger and technological transformations. Proceeding in this way, one would not only give due consideration to the interests of the local government but also ensure preservation of property belonging to the whole people. Besides, there are some collectively owned enterprises, for which, due to the many changes over the years, property rights have become blurred. Income from the property transfer of such enterprises must go to a department to be determined by the government, and must be entered and administered in a special account. Fifth, the question of employment and status of staff and workers of enterprises being taken over in mergers. It stands to reason that after the merger the take-over enterprise shall, selectively and according to its requirements, employ the staff and workers of the enterprise that is being taken over; it may take them over in full, or partially, or not at all. However, since China has not yet perfected its social security system, and not yet fully developed its labor market, it would be in the interest of promoting mergers, and also of avoiding social repercussions, to have the take-over enterprise in principle take over all staff and workers, on active duty and retired, of the enterprise that is being taken over. After the merger, it may carry out a streamlining of its organization and institute an internal "awaiting employment" system.

### Difficulties in Establishing Stock Markets Outlined

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[Article by correspondents Cheng Boming 4453 0590 2494, Zhao Zhifeng 6392 2535 1496, and Xu Yongjian 1776 3057 0256: "The Road to a Chinese Share Economy That Awaits Opening—How Can China's Shareholding System Get Started?"]

### [Text] The Inevitable Trend of Enterprise System Reform

The advent in China during recent years of the shareholding system, a form of enterprise organization that began in capitalist commodity economies, has infused the socialist commodity economy with new vitality; however, it has also aroused censure and controversy.

Though the shareholding system has only just begun in China, it has gone through twists and turns. In 1982, a "share craze" appeared everywhere in one place after another. At the end of 1985 and in early 1986, some people regarded shares with suspicion, and various restrictions ensued. By the last half of 1987, attitudes had gone full circle and the shareholding system once again became a hot topic in reform. The recently concluded Third Plenum of the 13th Party Central Committee acknowledged that the shareholding system is the direction for enterprise reform in China. In accordance with instructions from Comrade Zhao Ziyang that the "stock system can be tried out," the State Council decided to select some large and medium size enterprises enjoying relatively good economic returns in Shenyang, Shanghai, and Guangzhou as pilot project sites for the shareholding system. With this, the shareholding system in China "got back on track," and set out on the road to development.

People's understanding of the shareholding system has gradually deepened with practice as reforms have become more pervasive, and as the socialist commodity economy has developed. Within the short space of several years, people have given up their abstract ideas and the use of political standards as a yardstick, replacing them with the yardstick of real productivity standards for judging economic matters. Where people believed, at first, that adoption of the shareholding system method would enable rapid pooling of funds, following the twists and turns in reform of enterprises, they now pay closer attention to the active role of the shareholding system in spelling out property rights relationships, in forming new forms of public ownership, in optimizing the allotment of funds, and in building a new order in the socialist commodity economy. The shareholding system is an inevitable trend in reform of the country's enterprise system. One might say that acknowledgment of this orientation is a summation of many years of precious experience in reform, and is also a scientific capsulization of the pattern of development of the country's socialist commodity economy.



### Surmounting Initial Difficulties

Although the ice has been broken, people find that getting the shareholding system underway is no smooth sailing given realities in China. Some economists point out that among the more than 6,000 enterprises that are currently trying out the shareholding system, very few standards exist, and if this continues, it will be very difficult both to demonstrate and to make the most of the superiority of the shareholding system. Converting to the shareholding system in China will require devoting a lot of time and energy to solving some extremely troublesome and real difficulties.

**Difficulty Number 1:** How to define property rights over fixed assets acquired through enterprises' retention of profits in recent years, which some scholars term enterprise shares. Controversy continues about how to deal with this portion of enterprises' assets. Obviously, were material benefits created during the reforms of the past several years to be abolished for enterprises adopting the shareholding system, this would, at the least, be disadvantageous for enterprises' transition from the contract system to the shareholding system. If enterprise property rights can be defined, determination of state shares will be easy.

**Difficulty Number 2.** How to apportion enterprises' assets on hand. Some experts have suggested that ownership of fixed assets on hand should be converted to shares, and this is a view that has been generally accepted. The problem is how to quantify as share amounts all the elements of production in existing enterprises under existing conditions, and how to find suitable ways to express and exercise share ownership.

**Difficulty Number 3.** How to shape a mechanism for share certificate appreciation. People realize from experience abroad and from the current situation in domestic share enterprises that if high interest dividend payments are relied on to attract investors, enterprises will be unable to bear the high cost of raising capital, nor will this help steady growth in production funds. The solution is to form a mechanism for share certificate appreciation. The difficulty is that no developed negotiable securities market exists; thus, it is difficult to arrive at a market sale price for share certificates. The country's financial markets are currently very much undeveloped, so how to nurture a mechanism for the appreciation of share certifications very much deserves study.

**Difficulty Number 4.** Scientific determination of limits on issuance on share certificates. Use of the shareholding system requires that the issuance of share certificates be oriented toward society. In recent years however, various "regulations and "rules" have limited the scope of share certificate subscriptions. A reappraisal seems needed as to whether these limitations are scientific.

**Difficulty Number 5.** Founding of an equitable distribution mechanism. Under the existing distribution system, most of the profits of shareholding system enterprises are taken by the state, and this hurts share enterprises' ability to develop themselves. Quite a few scholars maintain that the existing distribution system is an outgrowth of the highly centralized planned economy, which shackles share enterprises. New distribution mechanisms should be explored that are suited to this new shareholding system enterprise system

**Difficulty Number 6.** Whether the shareholding system should be standardized at its inception. People are unanimous in acknowledging that China's shareholding system should be standardized. The question is, given the general lack of financial understanding, whether it might not be more difficult at the outset for standardized share certificates to attract public interest. In view of this reality, study is awaited on what effective action should be taken by the shareholding system that is now waiting to get underway.

Certainly, these are not the only difficulties by any means. The most fundamental reason for these problems is that China's shareholding system is starting out under conditions that are widely different from those in the western world. The shareholding system was originally born under conditions in which property ownership relations were fairly clear-cut, and the market system was fairly well developed; it was a logical extension of the old enterprise organizational system. In China, however, the shareholding system arises under conditions in which existing property rights relationships are blurred, and the market system is not fully developed. Consequently, China's shareholding system can come into being only through a molding and nurturing process that relies on the pattern of development of the commodity economy, and full application of existing economic conditions.

It is still too early to attempt to design a model for China's share economy or to depict its pattern of development. China's shareholding system is still in an inchoate stage, and its development depends on how people proceed. Therefore, it is hoped that more people will come forward with ideas for starting the shareholding system under current Chinese realities, and that they will zealously devote themselves to this great effort.

**Prices of Production Materials Stabilize**  
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[Text] Beijing (CEI)—The prices of major production materials in China have been gradually stabilized since September this year, statistics made public by the State Production Material Department shows.

Compared with the second half of September, the prices of some production materials in the first half of October came down, while some rose continuously, but only a few hiked radically.

Prices of steel products dropped by 1.2 to 4.4 percent. They include thread steel, angle-steel, round steel and thick plates, but those of cold-rolled plates and wire rods jumped. The price of carbon round steel remained the same. The one-mm cold-rolled plates were sold averagely at 5,243 yuan per ton, 123 yuan more than the figure in the second half of September, representing a 2.4 percent rise. In Chengdu, they were sold at 6,600 yuan per ton, in Nanchang 6,550 yuan, and in Shenyang 6,500 yuan.

The average price for 6.5-mm wire rods stood at 1,736 yuan per ton, a 2.1 percent rise over the second half of September. In Shanghai their price reached as high as 2,300 yuan per ton, 240 yuan higher than that of the second half of September.

The prices of aluminium ingots, cement and caustic soda jumped radically. For aluminium ingots, the price in the first half of October averaged 16,786 yuan per ton, 1,391 yuan higher than that in the second half of September, representing a nine percent rise. In Nanchang it hiked as high as 18,300 yuan per ton. The price for 425 cement averaged 197 yuan per ton, a 9.4 percent rise over the figure in the second half of September. In Guangzhou it ran as high as 301 yuan per ton. The average price for caustic soda was 3,095 yuan per ton, a 7.9 percent rise over the second half of September. The highest price was registered in Guangzhou, which was 3,800 yuan.

The highest price for number one electrolytic copper was 23,000 yuan per ton, 3,000 yuan more than the highest price in the second half of September.

The prices for pig iron, log and soda ash dropped. For coal, the price remained the same. The average price for pig iron stood at 642 yuan per ton, two percent lower than that in the second half of September. For soda ash, the price averaged 951 yuan per ton, 4.2 percent lower than that in the second half of September. The prices for larch and cedar logs dropped respectively by 1.9 and 5.3 percent. The coal price averaged 136 yuan per ton, representing a 1.5 percent rise. The highest was recorded in Ningbo at 298 yuan per ton.

The volume of business for major production materials dropped and some products were out of stock. The volume of sales of some products, such as mugs and washing basins, surpassed production, causing decreasing stocks of these commodities.

#### **JINGJI YANJIU Reviews Reform**

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[Article by Hua Sheng 5478 3933 and Zhang Xuejun 1728 1331 6511, of the Institute of Economics under the Chinese Academy of Social Sciences, and Luo Xiaopeng 5012 1420 2590 of the Development Research Institute under the State Council Rural Development Research Center: "Ten Years of Reform: Review, Reflection, and Prospects"]

[Text] Synopsis: This article reviews China's economic reform over the past 10 years, especially the major course taken since 1984. It also reviews some major

advances and debates made and developed in the fields of economic theories regarding structural reform of the economy as well as macroeconomic management. It holds that although many unavoidable and some avoidable mistakes were made during the 10 years of reform, China's basic strategy has been successful. The difficult position of our current reform results from the fact that the deepening of reform has not only touched upon some basic assumptions made by traditional socialist theories but has also touched upon the special political, economic, and cultural structures of China. To succeed in this market-oriented reform, it is necessary for China to establish a system of power that conforms to market rules, with the purpose of clearly and properly defining property, civil, and administrative rights. Our reform is actually endangered by the multiplication and expansion of bureaucratic power in the course of the weakening of administrative power. History, and particularly the history of China, has repeatedly proved that the expansion of bureaucratic power has always been the main threat against reforms as well as the warning sign of social crisis. Socialist China is currently at an historic turning point. [synopsis ends]

Few people now doubt that China's 10 years of reform and opening up have brought about historic changes. The 800 million peasants have begun to take part in promoting commodity economy and bringing about historic changes in this regard; the annual average GNP growth rate over the past decade reached 9.3 per cent; and the reform and opening up have improved the per-capita welfare level in China, thus winning international praise. The distinctness and steadfastness of our market-oriented reform, which began in 1984, and the substantial progress made by the reform have enabled China to greatly shorten the period of exploration and labor pains experienced for decades by some East European countries. As a result, China has become one of the two or three socialist countries earnestly engaged in genuine reform, and it has also achieved the foremost position in the field of reform.

In spite of this (or maybe because of this), China's reform has landed earlier than others in a predicament in which there is great difficulty in taking any strides. The liberated mood produced by the "heroic age" has been gradually replaced by the sense of loss in the process of groping one's way. With China receiving exposure to Western culture, there has been a reflection on or even an abhorrence of the country's traditional culture. The chaos created by the original criterion for appraising values not only has not been resolved but seems to have actually been aggravated. At the same time, the ever-increasing pressure caused by inflation, the vicious expansion of corrupt factors in our society, the rapid development of disparity in income and unequal opportunities, and the depressing crowdedness within the urban living space as created by the first peasant migration to the cities have all been turned into all kinds of explicable and inexplicable forms of discontent in our

society. With the fall of government credibility, a situation has further developed in which orders are not followed and bans are ignored, and there has also been a further expansion of dissension and discord. A sense of crisis has even begun to emerge among the nucleus of forces engaged in reform. All these things indicate that China's reform, which has been rushed over the past 10 years, is currently at a critical historic turning point.

All sorts of questions about the causes of the difficult position of China's reform can be summarized into three questions. 1. Has China's reform made some basic strategic mistakes? 2. Is it true that the reform movements of all socialist countries have hit a dead end? 3. Is it true that China's special structures of interest, right, and culture mean that the Chinese nation is doomed to suffer for endeavoring to achieve modernization? To answer these fundamental questions, we must first make a basic appraisal of China's reform over the past 10 years, and particularly the process of reform since 1984.

#### Part One: Review

The 10 years of economic reform in China can generally be divided into two stages. During the 1979-1984 period, the first stage, the focus of our economic thinking gradually shifted from the criticism of the ultra-leftist theory advanced by the "Gang of Four" to the process of understanding and criticizing the shortcomings of the traditional mode of planned economy (also known as the economic management system). The excessive concentration of policy-making power in the economic field was regarded as the major shortcoming of this mode. The facts at that time were: The national economy at the alter stage of the "Cultural Revolution" verged on collapse; the people's living standard was kept at a very low level for a long time; the lack of continuity in political and economic policy-making at the initial stage of change brought about the readjustment of the national economy; and the reform naturally began with the activities of transferring power to lower levels and reinvigorating the economy. Such activities mainly included the following: the emergence and popularization of the rural contract system of responsibility linked to production; the reform aimed at promoting efficient and simple administration and transferring power to lower levels within urban enterprises; the restoration and development of the private economic sector; and the opening up of China to the outside world. During this stage, the rural system of contracting output quotas to individual households quickly scored universally acclaimed achievements; the readjustment of the strategy for economic development and the emergence of diverse economic sectors made things convenient for the people, brought about vitality, and improved the people's living standard; and the revision and replacement of those specially ossified portions of our traditional modes obviously produced profits. The people were then relatively pleased with the work, and they also held relatively identical views. As a result, all these factors moved the focus of reform toward the market. In view of the fact

that we bore enormous political and economic pressure at the initial stage of reform and opening up, and that the people, including government policymakers and economists, achieved at that time only a limited, low-level understanding of the prospects of reform and the world at large, we can say that to a great extent China had no choice of modes for promoting its reform of the economic structure at the initial stage.

Of course, we are not saying that there were neither serious divergent views on nor serious controversies over the theory and guiding ideology for promoting economic reform at that time. For example, when the reform had just begun, economist Dong Fureng called for changing the system of ownership by the whole people in the form of state ownership. Dong noted that the form of state ownership turned enterprises into administrative subsidiary bodies of the state and that it also turned enterprise leaders into administrative officials, thus repelling to a great extent the economic rationality of policy decision made by enterprises.<sup>1</sup> Although Dong's article fails to fully explain the relation between the system of ownership by the whole people and the form of state ownership, the theoretical insight and avant-garde nature as shown by the article are still obvious to this day. This avant-garde reformist thinking was truly an avant-garde idea internationally at that time. It really is a pity that this thinking not only did not evoke due repercussions but was actually unjustly treated and suppressed. (Prior to the emergence of Dong's reformist thinking, although Polish economist Bruce put forward the issue regarding reform of state ownership, Bruce's summation is just that this reform has an affinity to the people of the state, and that the point is whether the democratic system has been implemented for every citizen. Please see Bruce's article "Public Ownership and Political System" published in 1971. Although Yugoslavia long ago turned state ownership into "ownership by the whole society," the true nature of Yugoslavian enterprises is that the enterprises have not completely broken off all relations with the system of ownership by enterprises which is linked with state ownership.) What has truly caused an extensive debate and produced great influence is the question regarding the relation between plan and market. On this question, economist Liu Guoguang pointed out at a relatively early stage that the organic combination of plan and market is an intertwined colloid and the two interdepend on each other. In putting forward his thinking, Liu Guoguang also called for turning mandatory plans into guidance plans and ensuring the leading role of guidance plans.<sup>2</sup> At about the time the 12th National CPC Congress put forward the slogan of "ensuring the leading role of the planned economy supplemented by market regulation," the aforementioned thinking was severely criticized by some people. However, it continued to exert an influence through the promotion of reform and in 1984 was written into the "Decision of the CPC Central Committee on Reform of the Economic Structure."

The 1984 decision marked the new stage of China's economic reform. The decision means that for the first



time, a great socialist nation has basically decided that achieving a market-oriented economy is the goal of its reform. It is true that the 1984 decision did not give a full, clear explanation of some basic principles for achieving this goal. (For example, the 1984 decision noted that "reform of the price system is the key to reform of the entire economic structure." This statement is open to two different interpretations. The first interpretation is that it merely means properly regulating the price system. The second interpretation is that it means reform of the price management system. In contrast with such different interpretations, a leading comrade of the central authorities, in a recent statement on the price reform, pointed out the necessity of using market methods to solve problems.) We now can see the following contributing factors to the passing of this decision: At that time, the profits made through reform were relatively obvious to all and the momentum was quite good, thus encouraging the people to make further progress and convincing some comrades with reservations that it was necessary to pass the decision. There were some more important contributing factors: Most people at that time, the profits made through reform were relatively obvious to all and the momentum was quite good, thus encouraging the people to make further progress and convincing some comrades with reservations that it was necessary to pass the decision. There were some more important contributing factors: Most people at that time did not realize that this market-oriented reform could produce such an immensely great shock to the foundation of our socialist system of ownership as well as to our political and cultural structure; and most people at that time also did not realize that to people without full preparations, this reform could mean experiencing such a great disconsolation and confusion as well as painful choices. However, this is history, which is irreversible.

If we say that the reform carried out before 1984 was more or less a reform of semi-automatic nature, there have been many more choices in conducting reform since 1984. This is because with the establishment of the main goal of reform, there is a realistic possibility of choosing a strategy for promoting reform. As a result, the opinions expressed since then by Chinese economists have been extremely divided, and the economists have since then been engaged in most heated arguments. Their arguments have basically revolved around three fields; namely, the price reform, the enterprise reform, and the management of general demand. (The rural issue has its highly specific characteristics as well as a relatively independent character. Since the space is limited, we will not discuss this issue here.)

### **I. On the Price Reform**

Of the heated debates conducted by Chinese economists, the most heated one is over the price reform. If we set aside various superficial interpretations of the price reform, we will say that the debate over the price reform has been revolving essentially around the following three issues.

#### **1. What Is the Meaning of the Price Reform? Does It Mean Regulating the Price System or Changing the Price Management System?**

The Chinese economists' debate over the price reform was not touched off by the question of whether it is necessary to carry out the price reform. It is a debate over two different connotations of the price reform. In other words, the debate is over whether or not the price reform means regulating price relations and the price system or changing the price management system and the price mechanism.

This debate over the price reform began in mid-1984. During the first national seminar on economic theories held for middle-aged and young economists in Moganshan, although almost all delegates unanimously agreed to carry out the price reform immediately and also consented to proceed from the field of industrial production materials, their debate over ways to conduct the price reform became white-hot. The debate was mainly between the group that favors regulating the price system and the group calling for lifting controls on prices. Within the group which favors regulating the price system, some members advocate an all-around regulation aimed at achieving a complete readjustment and some advocate a regulation in small way with the purpose of achieving quick results. Within the group calling for lifting controls over prices, some advocate lifting all controls and some favor a combination of lifting controls and regulating the system. Later, a larger number of comrades approved of the double-track system; namely a combination of lifting controls on prices and regulating prices with state participation in cultivating the market. This double-track system was adopted and implemented by the government in 1985.

According to the representative theoretical explanations given later by those comrades who call for regulating the price system, the following are their major points: "It will be difficult to have an ideal market under the current economic conditions in China. With regard to important commodities, it is still necessary to maintain planned prices." Their reasons are: "The equilibrium prices on the market that are based on natural forces could be chaotic and inconsistent. In a macrocosmic sense, such prices do not reflect a balance of supply and demand of classified commodities." "In calculating the theoretical prices of classified commodities with the macrocosmic purpose of achieving a general balance supply and demand, we have taken the following points into account: China's long-term development strategy, the rationalization of income and distribution, and the need for controlling factors that bring about economic fluctuations." Therefore, they maintain that this kind of "guidance prices based on a balance of supply and demand" should be used to "fix planned prices" and regulate price relations in order to rationalize the price system.<sup>3</sup>

Comrades who call for changing the price system have emphatically pointed out that "the old centralized price management method" is the source of our irrational price system. They have said: "The history of price readjustment in the Soviet Union and the East European countries has shown that owing to various restrictions imposed by real factors as well as errors in calculating theoretical prices, all price readjustments have actually failed to rationalize price relations. Every change in economic development will simply be a basis for carrying out another price readjustment (an interval to the next price readjustment is usually 4 to 7 years). We can see that even a large-scale price readjustment is not the fundamental way to solve price problems, and that a large-scale price readjustment can only be a regulatory measure aimed at achieving a short-term balance within the old system."<sup>4</sup>

Most comrades who have called for changing the price mechanism favor a combination of lifting controls on prices and regulating the price system. In other words, they do not reject regulating the price system. There are two different views on regulating the price system. First, those who primarily advocate regulating the system with regard to price readjustment as the one and only tool for rationalizing the price system. They have noted: "We must now first grasp the major contradiction, and gradually raise the prices of those primary products whose prices were set at an extremely low level in the past."<sup>5</sup> They also said that such a price readjustment will be a scientific one as compared with "chaotic" market prices. Second, those who advocate changing the system have put forward the following points: The price reform is essentially aimed at changing the price mechanism. Therefore, the state should first lift controls on the prices of those commodities outside the state plan, with the purpose of turning the existing black and grey markets into legal ones and turning relevant underground activities into ground ones. The state should also "be consciously engaged in further organizing new channels so as to expand the market of industrial products, and particularly the market of production materials. The state can turn the existing multilayered prices into unified ones through the promotion of an unobstructed market of commodities and an ample flow of important economic information. Fair prices should be used to stabilize the whole situation, and market prices should be used to promote the reorganization of production structures. These measures will bring about a stable fall of the prices of undersupplied commodities. After achieving this, we can raise state prices and gradually lessen the disparity between state and market prices." This method can reduce risks as well as the annual price increase rate. With the implementation of this method, we can basically, steadily complete the price reform in 5 to 6 years.<sup>6</sup> Therefore, the price system should be regulated in light of the conditions of market prices; and with the fall of the cost of obtaining information, the price system should be regulated on the basis of relying on market forces to restrain enterprises from raising prices. Judging from the aforementioned points, we can see that those

who advocate changing the system actually regard price readjustment as a supplementary measure for conducting the price reform. In addition, they think that relying on price readjustment alone not only cannot provide a real solution to problems but can actually pose a great risk.

With regard to the issue of lifting controls, those who advocate regulating the price system also disagree with those who favor changing the price system. This disagreement originated from their different estimations of the government's ability. Those who advocate regulating the system have shown great faith in the government's ability to control the process of price reform. They have noted: "Through conscientiously calculating theoretical prices, ... through a planned readjustment, the state is quite capable of solving those problems created by the serious irrational prices of primary industrial products and consumer goods within the Chinese price system."<sup>7</sup> "The price readjustment of production materials does not necessarily mean that all the increases will be transferred to the prices of final products. The actual amount to be transferred depends on the management of general demand."<sup>8</sup> However, those who advocate changing the price system have noted: Enterprises can only digest the changing market prices. "Due to the acute contradiction between the centralized price readjustment method and the decentralized profit structure," people always want to shift off the burdens of the price readjustment conducted by the state, "and even want to benefit from it." "This kind of expansionary conduction ... inflates the policy-making risk in the field of price readjustment." If people want "to gain a clear idea of the impact of price readjustment, it can be said with certainty that the central authorities' price readjustment will not be able to beat the local authorities' countermeasures, that the local authorities' measures will not be able to beat the countermeasures adopted by enterprises, and that it will be extremely difficult for the state to bear the related financial burdens."<sup>9</sup> The miscarriage of the large-scale price readjustment in 1986 confirmed the correctness of the aforementioned prediction. The miscarriage of the 1986 readjustment plan in the fields of prices, taxes, and finances was not due to the objection made by those who have called for changing the price system. The real causes of the miscarriage were: The price readjustment program could not satisfy all interest groups; the financial burden was unbearable; and there was an endless debate about the goal of this "one-off" program. As a result, the program was repeatedly revised and the scope of the problem was reduced again and again, and the whole program was eventually abandoned. A recent report said that there will be a price readjustment. After hearing this, various parties did some accounts and concluded that the readjustment will certainly bring about another serious financial loss. This is new evidence.

Another difference in intrinsic quality between those who advocate regulating the system and those who favor changing the system is that their interpretations of the

mechanism of price movement are completely different. Those who advocate regulating the system have noted: "According to the calculations performed in 1986, the program for a relatively comprehensive readjustment of the prices of production materials and transportation fees can bring about at most a 7 percent rise in the general retail price index of commodities (the wage spiral and chain reactions were taken into account)." They, therefore, doubted the "deservedness" of the increase in those commodity prices that were not part of the price readjustment.<sup>10</sup> However, according to those who advocate changing the price system, relying on market price fluctuations to reduce the speed of long-term price increase is not applicable to our system. Generally speaking, price readjustments conducted by socialist countries mean price increases. Therefore, a price readjustment greatly accelerates the rise in the general price level. There are two reasons for this. First, in such a system the producers and consumers are not on a symmetric footing. The system is to the producers' advantage.<sup>11</sup> Price increases directly benefit producers and are detrimental to consumers; and lowering prices means that producers suffer losses directly and that the government's financial revenues will be reduced. Therefore, when the accumulation of problems necessitates "fire fighting," prices are always readjusted upwardly. Second, owing to a serious procrastination of readjustment, the products whose prices were fixed on the high side could become outmoded and obsolete as a result of being kept too long in stock (this kind of situation frequently occurs in China). At the same time, with the rise in the prices of low-priced products, the relative price ratio of those products whose prices were fixed on the high side is not longer high. Therefore, we can see that the inflationary trend of price readjustment has something to do with the natural character of price movement.

Lastly, those who advocate regulating the system differ from those who favor changing the system on the timing of price reform. Those who advocate regulating the system tend to regard price reform as a "one-off" one.<sup>12</sup> Therefore, they basically do not have an anticipative concept. However, those who favor changing the system think that price reform must be a process, and that price readjustment and its inseparable price increases will easily stimulate the people's anticipation of inflation. Over the past few years, panic buying has never really stopped, thus creating a turbulent market and throwing the people into a panic. This is precisely due to changes in the people's anticipation. In addition, an excessive volume of money can also bring about very serious inflation. While stressing the need for creating a relaxed economic environment and the necessity of controlling inflation, some economists have publicly stressed the necessity of immediately conducting a large-scale price readjustment. They have said: "We have to pass this barrier sooner or later; the sooner we pass it the better; a short period of suffering is better than a long period of suffering; and the important thing is making a prompt decision."<sup>13</sup> When they described price reform as a one-off major operation, or "major action," they probably

did not realize that this way of doing things will just weaken the environment for conducting reform.

However, we should point out that the viewpoints of those who advocate regulating the system later achieved a great development. On the one hand, they still maintain that "a relatively comprehensive readjustment of the prices of production materials will greatly benefit the disposition of resources, and that such a readjustment is the foundation stone that will enable our reform to make substantial progress."<sup>14</sup> On the other hand, they have recognized the necessity of lifting controls on prices in the end. They have called for "adopting the method of preceding price decontrol with price readjustment. We should first readjust the prices of products that were fixed at a very low level for a long time. When the readjusted prices approach the relevant equilibrium prices, we can then lift controls on such prices."<sup>15</sup>

However, owing to the fact that those who advocate regulating the price system have not abandoned their original foundations for setting of their views, they have created some contradictions in logic. First, those who advocate regulating the system resolutely oppose the double-track system, which is aimed at combining price decontrol with price readjustment. According to them, the double-track system will only create a "double twist." Without referring to the market conditions, how are they going to solve the problem of calculating equilibrium prices? People would like to know the answer to this question. Second, in calling for adopting the method of "preceding price decontrol with price readjustment," those who advocate regulating the price system have not given a clear explanation of the issue concerning the interval between price readjustment and price decontrol. If there is a stable economic period following the readjustment, there will be fast deviations within the price system. As a result, there will be periodic price readjustments, but there will be no change in the price mechanism. In addition, every price readjustment will be carried out under some apprehensions, such as a readjustment can easily touch off a social crisis (the situation in Poland is an example). However, if there is a short interval only or simply no such interval between price readjustment and price decontrol, people will find it very hard to understand the reason for not immediately lifting controls on prices as well as the necessity of going through the process of calculating prices and bargaining with various departments. This way of calculating prices will tire the people and drain the treasury; and this kind of bargaining process will be a painful one. Lastly, there is a question of greater fundamental importance: It is said that the rationalization of the price system is the goal of our price reform, and that reforming the price management system is the one and only way to achieve this goal. If the state can succeed in calculating prices and regulating the price system without going through the one and only way mentioned above, why is it necessary for us to lift controls after achieving the goal of our reform? Isn't this an unnecessary move? The argument for preceding price decontrol with price readjustment here shows a contradiction in logic. This argument

fails to notice that conducting a price readjustment in accordance with equilibrium prices shows a line of reasoning based on rejecting market prices. Grafting it into market prices halfway will inevitably create confusion in logic.

Therefore, it will not be difficult to understand that the process of conducting price reform in China means two entirely different worlds to those who advocated regulating the price system and to those who favor changing the system. For example, according to those who advocate regulating the system, "during the first half of the 1980's, there was a relatively good opportunity for China to conduct price reform," "we have missed this opportunity."<sup>16</sup> However, according to those who favor changing the system, the readjustment period in the early 1980's was still a period in which "the planned economy played the leading role;" even talking about the need to ensure the leading role of guidance plans was criticized during this period; and there was simply no opportunity for conducting price reform. If economic depression and a "relaxed environment," which came into being after a large-scale readjustment, could be described as an opportunity for conducting price reform, then the early 1960's, a period which came into being following a readjustment, could be described as a better opportunity for conducting price reform. Since early 1985, the state has been following the double-track method; namely a combination of price decontrol and price readjustment, to promote reform of the prices of production materials. As a result, the state's mandatory plans, which previously occupied an absolutely dominant position in the field of the exchange volume of the whole society's production materials, now control only 20 to 30 percent of such exchange volume. According to those who favor changing the price system, this represents substantial progress in the field of price reform; due to this progress, the number of market factors in China has even exceeded the number of such factors in Hungary, which began to conduct its reform in the 1960's. This point was first mentioned by a delegation of Hungarian economists during its visit to China in 1987.<sup>17</sup> However, according to those who advocate regulating the price system, China not only has not conducted any price reforms in recent years but has actually "bypassed price reform." They have said: "In 1986, owing to the conditions created by the state's deflationary policy, the possibility of conducting price reform emerged again." However, due to the fact that their proposal for conducting a large-scale readjustment in the fields of prices, taxes, and finances was not realized, they said the reform was "postponed" once again.<sup>18</sup> It is thus clear that although both parties talked about price reform, they used completely different concepts.

## **2. What Is the Key to Successful Conducting Price Reform? Is It "Managing Currency" or "Creating a Competitive Market?"**

When people read the statement "The key to successfully conducting price reform lies in successfully managing currency,"<sup>19</sup> their initial reaction could be that currency

is irrelevant to price reform. This is because although the policy on current is very important, it belongs to the category regarding the management of demand. In addition, currency management and price reform are not on the same level. However, if we carefully study all the proposals made by these comrades, we will see that the conclusion they drew is based on their own logic. Their logic is this: Managing currency—creating a relaxed environment—revolving around a large-scale price readjustment and taking joint actions in the fields of taxes and finances—lifting controls on prices after readjusted prices are close to equilibrium prices—establishing a market system. According to them, taking joint actions in the fields of prices, taxes, and finances is a "decisive step;" making this step requires a relaxed environment; creating a relaxed environment depends on successfully managing currency; and the policy on currency is therefore the prerequisite for activating the whole chain.<sup>20</sup> In answering the question that as the system remains unchanged, it will be very easy to lose a relaxed environment created by a temporary deflationary policy, Comrade Wu Jinglian and other comrades explained that their tentative plan for taking large-scale joint actions centers around price reform, and that such joint actions will not only be ready for the emergence of a relaxed environment but will also make absolutely sure that no opportunities are missed. In our opinion, their tentative plan is just like a breathtaking triple jump. Even if we grant that the successful management of currency can create a relaxed environment, owing to the existence of the old system, opportunities can be lost in an instant during the intervals between a relaxed environment and a large-scale joint action, between taking large-scale actions and lifting controls on prices, and between price decontrol and the formation of a market. The tentative plan has made such a high demand on environment. This is perhaps one of the reasons that the plan has never been carried out. They have said: "The whole thinking is that two interlinked steps will be taken to promote reform. The first step is the management of the environment." "On the basis of the foundations laid by the first step, the second step, a decisive step, will then be taken" through joint actions in the fields of prices, taxes, and finances. After this, "the preliminary basic frame of a new system can then be established."<sup>21</sup> Although they always mention a competitive market system, this system was not mentioned by their "while thinking," which is characterized as "wheels within wheels." Perhaps they assume that a competitive market system will naturally come into being after they have completed the second step to lift controls on prices.

Those who advocate regulating the price system regard creating an "environment" and taking "joint actions" as the difficulties of price reform. However, those who favor changing the price system thinking that the whole difficulty of price reform lies in linking price decontrol with the formation of a market. For this reason, they said at the outset: "The key to the formation of a benign conductive mechanism for price variations lies in creating a certain amount of competition among enterprises,



thus exerting effective pressure on enterprises and forcing them to digest price increases. This also depends on having open and free markets in the urban and rural areas;" "the essence of price reform is a market issue." However, at present, a production materials market has not yet been truly formed; and there is still a serious situation in which some listed commodities are out of stock, some commodities cannot be bought with money, and there are diverse prices for a single commodity. Therefore, "price reform cannot be just a process of readjustment, nor can it rely on price decontrol alone." Our price reform must "really establish a production materials market outside the materials allocation system, and enable the diverse non-listed prices to become unified ones." To quicken the pace of forming a market, we must implement various measures, such as state participation, releasing information, and selling goods in big quantities in order to bring about a fall in price. It is also imperative "to guide by demonstration the establishment and development of markets for general and specialized production materials."<sup>22</sup> Through this kind of transition, people can study market operations during the process of market development, and the transition from planned management to market management can be realized in a stable way within a few years. To prevent reselling at a profit, they suggested that "commodities bought at a fair price should be sold at a fair price and that commodities bought at a high price should be sold at a high price." With the purpose of cutting apart two different markets. Some comrades also put forward a "double-track system of base figures." According to them, this system means that all the base figures of the commodities sold by the state at a fair price should be permanently fixed; that enterprises which fail to fulfill state plans will have to accept income cuts and pay fines which are calculated on the basis of the differences in state and market prices; and that after fulfilling state plans, all the enterprises' increased output can be sold to the market at negotiated prices. This system will eliminate the possibility of speculation within the double-track price system.<sup>23</sup>

We should point out that although these comrades under the then circumstances managed to see the importance of establishing markets, their understanding of markets now seems to be quite shallow. They consciously or subconsciously made the following assumption: If the government lifts controls on prices and organizes commodity circulation and commodity exchange among enterprises, markets will be formed quickly. According to them, the following were the causes of the formation of multiform price systems outside the state plan: Many enterprises and particularly collective enterprises as well as town and township enterprises were not assigned any production plans and targets or were only assigned a few production plans and targets. There were no markets or channels that could enable them to survive and develop. Since they could not find a correct path, they were forced to go in for creating diverse prices and adopting dishonest methods. Therefore, if market prices are legalized and if the state participates in organizing markets, "a

prosperous and free market which is fair in buying and selling will quickly replace the current barter trade and will also quickly replace all kinds of abnormal and illegal nonprice trade," and the "unification of diverse prices" will naturally come into being. However, developments later showed that all these early predictions were not realized. At present, in the field of unrestricted prices, Chinese enterprises are not selling their products at a high market price but are selling them at medium or low prices; and diverse prices continue to exist and develop. These phenomena are unthinkable in the Western economy, as they run counter to the general knowledge of economics. What are the roots of these phenomena?

It now seems that after the state's decontrol of a number of prices, diverse prices continue to exist and there are still difficulties in forming markets. From the angle of producers, the following are the reasons for the existence of these phenomena:

1) The invasion of bureaucratic and administrative powers. Many people with power and influence within government departments have used their power and influence to force enterprises to sell commodities at low prices. To protect their own financial interests, some local governments have enforced market blockades, thus artificially creating diverse prices of a single product.

2) The invasion of individuals. People and small groups which control commodities have deliberately forced prices down while concluding transactions, and artificially made commodities scarce so as to maintain their privileges and to line their pockets with public funds and other people's money. The extreme case is this: They will lower the selling price if they are given money. In purchasing commodities, giving bribes to the people concerned is actually more important than paying relevant legal persons. This is perhaps a sample showing the zenithal development of the softening of control over enterprise budgets in China. (Newspaper reports have exposed large numbers of cases of reselling at a profit. Such cases have shown the following common characteristics: There is a batch of commodities which could be originally part of a planned allocation, could come from an enterprise-operated outlet, and could also be imports. Here we are not concerned about the sources of the commodities. However, when the batch of commodities is put into circulation, its price are raised during every resale. However, at this stage, they are still not reselling it in accordance with market price. When the last person resells at market price, this reselling at a profit is over. In places where there are not government price controls, people are still not selling their commodities in accordance with the high prices offered by markets. This really calls for deep thought.)

3) The enterprises' intention of not maximizing profits. To enterprises, the most important target is not maximizing profits. What they are after is to maximize material benefits for their enterprises after achieving a proper profit level. Enterprises have deliberately kept

some of their products at a low price and have even avoided fixing prices for some of their products. As far as their own interests are concerned, this practice is rational. By doing so, they can bypass the tax and financial systems and exchange the products for more material benefits for the enterprises as well as their staff members and workers.

4) The effect of inferior currency driving out quality currency. Some enterprises really do not want to do the things mentioned above. However, the present Chinese economy is divided into three parts: power economy accounts for 30 percent, relation [guan xi 7070 4762] economy accounts for another 30 percent, and monetary economy accounts for only 40 percent. You can of course monetize your products. However, if other people are doing this, you will find that some work cannot be done with money. Therefore, you have to do what other people are doing. (Some people think that the existence of planned prices is the basic reason for the failure to unify market prices. This point is just looking at the surface of the issue. The market outside the state plans has now occupied an overpowering, dominant position. The existence of diverse market prices cannot be simply attributed to the reflection of planned prices. In some special economic zones, although there are neither mandatory plans nor the supply of commodities at a fair price, there are still all kinds of diverse prices in local markets, and the practice of selling and reselling at a profit as well as the practice of accepting and taking bribes are now the order of the day. This is a case in point.)

5) Monopolistic market structure. With the existence of this structure, what is called lifting controls just means turning state monopoly into enterprise monopoly, and there will still be secondary prices in the market. Grain purchasing is a case in point. In 1985, the original double-track price system for grain purchasing was replaced by a contractual purchasing quota system. (This so-called reform for combining two types of prices in 1985 seriously dampened the peasants' enthusiasm for production. It was an important factor in the deterioration of the agricultural production situation in that year. According to the viewpoint of government departments, with the combination of two types of prices and with the promotion of a comprehensive average purchasing price, peasants would receive the same amount of money they received in the past if they would sell the same amount of grain they sold in the past. The government departments did not realize that the peasants' production activities have always been regulated by the high marginal prices for the state purchase of agricultural products in excess of quotas. Promoting a comprehensive average purchasing price, peasants would receive the same amount of money they received in the past if they would sell the same amount of grain they sold in the past. The government departments did not realize that the peasants' production activities have always been regulated by the higher marginal prices for the state purchase of agricultural products in excess of quotas. Promoting a comprehensive average price meant lowering the marginal

prices, thus dampening the peasants' enthusiasm for production. At that time, although comrades from the development research institute under the State Council's rural development research center resolutely opposed this "reform," they were actually regarded as being "conservative." This lesson merits attention.) As a result, the new purchase price became the new state price, the negotiated price for buying by the state became the secondary state price, and there was a third price in the market. It is clear that without breaking the monopoly of the state enterprises, there will be no prospects for either price readjustment or price decontrol.

Why is it that lifting controls on prices has failed to bring about the formation of markets? From the angle of circulation, we can see the following reasons for this failure. People once placed great hopes on departments of planning and commodities at all levels, expecting them to play the major role in organizing markets for circulating commodities and stabilizing prices. However, in fact, proceeding from their personal interests, many bureaucratic merchants have actually embezzled public funds or properties they were entrusted to safeguard, and have been engaged in selling or reselling at a profit. They have also taken graft and demanded bribes. Soon after the implementation of the double-track system, many comrades realized the riskiness of this issue, and raised a cry of warning, saying: "We must transform our old circulation organizations and particularly commercial and wholesale organizations," and "organize the establishment of a futures market." Transforming such organizations and establishing a futures market are "the starting points for establishing market organizations." "Otherwise, either the closed and monopolistic nature of old organizations will suffocate our lively new organizations or the vicious spread of noneconomic speculative forces will lead to dislocation and chaos in the market."<sup>24</sup> However, this strong predictive warning did not get people's attention at that time. To the unwieldy management machinery and powerful vested interests, this warning appeared to be ridiculously childish. The so-called complete decontrol of the prices of seven major industrial products in mid-1986 further opened the door wide for bureaucratic merchants to make fortunes through reselling industrial products at a profits. Generally speaking, these bureaucratic merchants have strong and powerful backing; their political forces are deep-rooted; and they maneuver among various economic groupings. It is clear that without completely divesting them of their monopolistic power and that without thoroughly remoulding and restructuring our circulation organizations, these bureaucratic merchants will continue to be domineering and tyrannical even if controls on all prices are lifted. Another important reason for the failure to use price decontrol to form markets can be found from the consumers' view points: Under the traditional system, consumers are used to regarding price increases as the means of distribution controlled by the state. It is to their interest to rigidly stand up against price increases. During the reform of the retail prices for nonstaple foodstuffs, including pork in 1985, the supply

slightly exceeded demand. After seeing this relaxed environment and this price decontrol, some comrades thought that price reform would undoubtedly be crowned with success. To their surprise, in 1988 the state was forced to conduct a price readjustment for pork and other nonstaple foodstuffs and to give subsidies for price increases on these foodstuffs. And on one is pleased with this situation. The fact is that our market structure is based on state monopoly and that our consumers are not receptive to upward adjustments of prices. As a result, something quite unusual, namely, a combination of conducting price readjustment and giving subsidies for price rises, has emerged in areas where controls on prices have already been lifted. If we cannot successfully handle the relations between the state and consumers while resolving the issue of monopoly, promoting price decontrol will be just empty talk to deceive ourselves as well as others.

As far as the state is concerned, the reason for the failure to form markets after lifting controls on prices is this: In some fields (such as manufactured consumer goods), the state does not and cannot trust enterprises, thus lacking the courage to allow enterprises to "arbitrarily raise prices." In other words, the state lacks the courage to allow enterprises to fix prices in accordance with the market supply-and-demand situation. This kind of decontrol conducted in a shilly-shally way can only create confusion and certainly cannot help form markets.<sup>25</sup>

Since China's "decontrol" of the prices of large numbers of light industrial products in 1986, the relevant pricing system has been changed; meaning that fixed profit rate has been set by the state for the price increase in every resale of products. This pricing system has in fact encouraged people to conduct a continuous reselling of light industrial products in short supply within the circulation system. This is because there is profit to gain from every resale in accordance with the fixed rate. This kind of "reform" not only rescinds control on unified prices but also fails to stipulate that prices fixed by enterprises be based on supply and demand. This will inevitably lead to disastrous results.<sup>26</sup>

Since price decontrol cannot immediately bring about the formation of a competitive market, a price reform, conducted either in the form of preceding price decontrol with price readjustment or in the form of preceding price readjustment with price decontrol, cannot be accomplished in one move. Therefore, the reform conducted through a combination of price decontrol and price readjustment will inevitably bring about the emergence of a double-track market. (Some people think that it is possible to avoid having a double-track market. They have said this can be done if controls on the prices of products are lifted one by one. But the problem is this: There are chain relations between products and particularly between the input and output of production materials; and if the controls on a number of products are lifted first, it will simply be impossible to maintain the

fixed prices of other products, and ultimately there will be no real price decontrol for any products. This point has been proved by lessons from the Hungarian price reform.) The double-track system characterized by a combination of price decontrol and price readjustment can be likened to a "vanguard" sent to open up markets. Our double-track system has won a battle in disintegrating the old systems, but suffered a defeat in unifying diverse prices and forming markets. (In fact, the main reason for the double-track system's failure in this regard is that it encountered the bureaucratic power which is a formidable enemy of reform. The essence of the double-track system means that all original targets for planned supplies should be fixed, and that all changes and output increases should be made and achieved through market forces. If things are done in this way, the serious unequal distribution of planned targets set for enterprises under the traditional system will be naturally and gradually lessened. We once described this traditional system as a "caste system." If we can ensure that all original targets are permanently fixed, that such targets will be reduced only and not increased in the future, and that enterprise products are treated as grain and edible oil which are supplied for holders of ration books and are immune from interference created by brief informal notes from leaders, it will be impossible for the practice of reselling at a profit to exist within the double-track system. If we can ensure that all these things are done, then we shall have a truly fundamental institutional guarantee. If the supply of grain and edible oil was not immune from interference created by brief informal notes from leaders, this kind of supply would probably not be able last the country a whole year. The following are problems in this regard. Relevant government organs do not fully understand the strategic intentions of the double-track system for the transition period; they do not understand that the key to the successful implementation of the double-track system lies in permanently fixing the average planned targets and in promising that such targets will be reduced only and not increased in the future; and they do not understand that by doing so, the proportion of market forces in the national economy will naturally expand day by day. When some enterprises have been showing increases in production output, relevant government organs have frequently demanded that the enterprises' average planned targets be increased, thus turning the fixed planned targets into targets that can be changed at will. However, regarding those enterprises that have failed to fulfill state plans, these government organs just let things drift and have not enforced the relevant law (those enterprises should have been severely punished in the form of income deductions and fines which should be calculated on the basis of differences in state and market prices). A few people within government organs even take delight in the obscurities within the double-track market, as this will make things convenient for them to be engaged in energetically running their own companies, reselling at profit, and fishing in troubled waters. As a result, the double-track stronghold has been breached and captured from within; and the double-track system has been discredited and wounded and is

completely incapable of guiding the unification of diverse prices. It is clear now that this defeated general [the double-track system] must be replaced by someone better qualified. However, it will be a fundamental mistake to think that the enemy will voluntarily disappear and that price reform will then be accomplished as long as the double-track system is abolished and the defeated general is executed.

On the basis of these lessons and assessments, the great majority of the comrades who favor changing the price system began no later than the autumn of 1985 to issue an urgent appeal, saying: "Lifting controls on prices does not mean forming markets," and having markets does not mean having competition.<sup>27</sup> "Hoping to see the right price signals is just hallucination," and "only by placing on the order of the day the task of reforming the market structure in the deeper levels can we extricate ourselves from the threat of the possible emergence of economic fluctuations."<sup>28</sup> "Cultivating markets, bringing forth new ideas, and blazing new trails constitute our tactics of 'storming heavily fortified positions' during the period to deepen reform."<sup>29</sup> "If we neglect the restructuring of micro foundations, then, granted that we have formulated a most ingenious plan for market functions and regulatory modes, operational breakdowns will inevitably emerge or the plan will simply be incapable of going into operation."<sup>30</sup> In addition, without the supporting role played by reform of the political structure, reform of the economic structure cannot win victory by itself. Therefore, we must make "long-term preparations" for conducting the reform.<sup>31</sup> Incidentally, we would like to point out that Comrade Wu Jinglian and other comrades have repeatedly quoted and criticized the following points we have made: Reform should develop in the field of micro foundations and in the political sphere; it is imperative to "free ourselves from the atmosphere and pressure that are created for speeding up the transition period"; and it is imperative to "make long-term preparations." They have said that our points would mean "postponing" reform and "lacking decisiveness in a long battle." We think that their criticism shows that they are excessively confident of the cornerstone role played by price readjustment. In fact, as far as strategy is concerned, historical lessons show that our people suffered for being overanxious for quick results. In particular, during a period of time this year, the trend of thought advocating the tactics of accomplishing the whole task at one stroke occupied a dominant position for a time, and strong pressure spread all over the place, stressing the following points: "The currency must be managed well and price controls must be lifted"; "although there are dangers in passing the barrier, there is a vast stretch of flat land behind the barrier"; "the important thing is to make a prompt decision."<sup>32</sup> Despite the strong pressure, those comrades who favor changing the price system still raised a cry of warning, saying: "Prices are just a superficial phenomenon,"<sup>33</sup> which "is a message released by the market; with the existence of the principal parts of a market and a proper market structure, there will be certain price signals;"<sup>34</sup> if they just talk about a vast

stretch of flat land and do not mention the possibility of encountering pitfalls there, they are not viewing things in an all-around way<sup>35</sup>. The current urgent task in conducting price reform means that the activities of "eliminating inflation," "bringing the chaotic situation under control," and "punishing corrupt people" must revolve around the market. This is because "the key to achieving a successful price reform lies in the establishment of a competitive market." If people "act blindly in their attempt to pass the [price] barrier, they are making a historic mistake."<sup>36</sup>

Theoretically speaking, the lack of a fundamental reform of the old systems is the root of the socialist countries' failure to achieve a real price decontrol through price reform.<sup>37</sup> (At an earlier stage, on the basis of his assumption about the soft [ruan 6516] restrictions imposed on socialist enterprise budgets, Hungarian Economist Ke Er Nai [4430 1422 1143] said with certainty that as long as these soft restrictions continue to exist, price decontrol not only will not eliminate shortages but will actually bring about inflation. The Hungarian economist's theory was later challenged by two parties. The first challenge was given by some people who pointed out that the theory is an excessive generalization that can hardly find solutions to problems, and that the vagueness of property rights or equity relations is the root of soft restrictions imposed on public enterprises. The second challenge was given by Polish economist Ge Mu Er Ka [0766 4476 1422 0595], who put forward the concept about the elasticity of prices and budgets. According to the Polish economist, the concept about the soft restrictions imposed on budgets is not precise enough; the softening level of restrictions should be determined by an elasticity test. Owing to the fact that in a open market, price elasticity is generally greater than budget elasticity, a socialist country's price decontrol will bring about inflation but will eliminate shortages. The Polish economist's point can be found in his article "Comments on Ke Er Nai's theory about Soft Budgetary Restrictions and Shortages," which was translated into Chinese and carried in the 12th issue of JINGJIXUE YICONG in 1986. In his academic report to the Queen Elizabeth Research Center at Oxford University on 25 November 1987, Hua Sheng made further progress in this field, saying that the applicability of Ge Mu Er Ka's elasticity theory is very limited. Hu Sheng was referring to the Polish economist's point that price elasticity is generally greater than budget elasticity in a commodity market. According to Hua Sheng, due to the lack of a clear definition of property rights in the elements [yao su 6008 4790] market, the Polish economist's argument may be untenable.) Under this socialist system, the state has limitless power, and the state is also expected to have limitless responsibility; and the workers to a great extent have lost the freedom of or the right to the following things: movements, the choice of professions, the choice of the forms of personal assets, and the choice of insurance. In addition, under this system, the enterprises have lost the right to the following things: free management, the choice of channels of funds, the choice of interest rates,



the choice of employees, and making decisions on prices and gross payroll. A market-oriented reform is essentially aimed at enabling the state to transfer its power and responsibility in the aforementioned fields to the relevant parties, with the purpose of enabling market participants who enjoy the full right of allocating their own property to decide by themselves on prices, wages, and interest. A socialist state, which is unwilling, dares not, or is unable to lift controls completely, is facing a whole system of rights that has been restructured to replace state controls and to be the guarantee of market economic operations. Judging from this angle, we can see that the socialist countries' failure to achieve a real price decontrol through price reform, and their problem in having chaotic situations and immediate price increases following the implementation of price reform have in fact brought to light the following point: Under the situation in which the elements of production cannot be socialized and separated from one another and, therefore, cannot be given due remunerations in accordance with market values, society probably will be unable to accept a profit distribution setup formed by an "open and unrestricted" commodity market. Therefore, when price reform was defined as a market issue, the structures of all major economic sectors and their whole living conditions were exposed. After conducting reform for 10 years, only naive people still think that relying on "decontrol" alone can solve the problems in price reform.

At first those who advocate regulating the price system stressed price readjustment and rejected price decontrol. They then called for "preceding price decontrol with price readjustment." Last, they called for "managing the currency well and lifting the controls on prices." these changes indicate a great development in thinking. But the fact is that those who advocate regulating the price system have always either removed the formation of market from the reform process they designed or just assumed that it is a target to be achieved at the end of the process. However, according to those who favor changing the price system, the formation of market is the whole process of price reform as well as a difficult point in the reform. This is the essential difference between the two sides.

### 3. On Supportive Measures for Promoting Price Reform

The argument for supportive measures originally came from Eastern Europe. In early 1985, a person pointed out that China's reform "does not mean that all the major links of the economic system be restructured simultaneously in 'a package deal,' and that the reform will be carried out step by step."<sup>38</sup> At that time, this point was just put forward for analysis, with neither praise nor censure. In addition, at that time, there was simply no mention of any "package" plans for reform. However, the "package" point was later evolved into the argument for adopting supportive measures for reform, and this argument has been unexpectedly turned into something advocated by a group of people.<sup>39</sup> Moreover, those who

think that the two-tier system will inevitably emerge during the process of reform have been described as "the group disapproving the adoption of supportive measures for reform," or as "the group favoring quick fulfillment of particular targets." The names alone clearly show that those engaged in name-calling will not get anywhere. But things have not been so simple: The Hungarians, who have been engaged in promoting reform with supportive measures in a "package deal" for more than 10 years, have suddenly come to see their own error, describing themselves as "naive reformers."<sup>40</sup> In addition, the Hungarians recently announced that "the road we took was a dead end."<sup>41</sup> Chinese economists have also realized that merely describing the interlinked relations among the enterprise, market, and the macroregulatory system is not providing a supportive measure for reform and that such a description is a bit too generalized. The three elements within the interlinked relations are just some of the major aspects of reform pointed out by the central authorities. This generalized description cannot become a plan of operation. It cannot even be called a way of thinking.

In fact, Chinese economists have not been debating over those abstract general principles and slogans, nor have they been debating about the necessity of adopting supportive measures for reform, a topic in elementary economics courses. What they have been debating are substantive reform plans or thinking in this regard; and the most heated point of debate is whether supportive measures for reform should be adopted in the form of taking large-scale joint actions in the fields of prices, taxes, and finances.

The idea of taking joint actions in the fields of prices, taxes, and finances was first mentioned in the autumn of 1984. While calling for using price readjustment to achieve new and rational planned prices, some comrades suggested that "the price policy be closely integrated with the policies on taxes and subsidies, and that these policies act in close coordination. In a broader sense, the price policy should also be closely integrated with the policies on interest rates, exchange rates, customs duties, and subsidies for imports and exports."<sup>42</sup> This proposal, whether it is accepted for implementation or not, is a logical one. This proposal or viewpoint was accepted by more comrades later on and was also greatly revised and developed; it was formally put forward in 1986. In the past few years, some comrades have regarded this viewpoint as their major stand for reform, saying that whoever disapproves this viewpoint is the one who wants to "bypass price reform," and to "avoid taking the difficult way by taking the easy one." In addition, they have regarded those who disapprove this viewpoint as people opposing the adoption of "supportive measures for reform." This has become a serious matter. In addition to the aforementioned issue concerning the argument for treating price readjustment as the foundation stone, why is it that since 1986, a relatively large number of comrades in the economic circles (including us) have been consistently expressing doubts about this plan for "joint action"? It is necessary for us to give an explanation.

It is common knowledge that under the traditional planning system, planned prices mean seriously twisted prices, the government's ability to conduct readjustment falls short of its wishes, and readjustment always falls behind. In addition to information cost being a cause of this situation, the major cause is that the state obstinately regards pricing as the tool for profit distribution. While balancing the distribution of resources, market prices also correspond with certain profit structures. The emergence of planned prices constitutes a restriction on market functions. Planning prices are introduced at the cost of sacrificing or weakening the function of market prices in the distribution of resources; they are introduced to ensure the state its needs in profit distribution. However, when prices are seriously twisted and when resources are therefore seriously wasted, the state is forced to conduct price readjustment, thus changing the existing pattern of profit distribution. Therefore, under the traditional system and particularly at the initial stage of reform when the traditional system has not been fundamentally touched, every price readjustment will inevitably require taking joint actions in the fields of prices, taxes, and finances, with the purpose of safeguarding vested interests as far as possible. With the existence of planned prices which bring about the separation of the two functions of prices, namely, balancing the distribution of resources and balancing the distribution of profits, it will be impossible to achieve the successful fulfillment of either function. The true meaning of price reform is that planned prices should be turned into market prices. In other words, there should be a unification of the two functions of prices, namely, balancing the supply and demand of resources and balancing the distribution of profits; and the leverage function of prices in the state's distribution of profits should be basically abandoned. The qualities that constitute the natural character of the movement of market prices are: "Avoiding the poor and loving the rich," identifying with the law of supply and demand only, and paying no attention to fairness. However, tax and financial policies are based on the principles for promoting fairness and rationality. Market prices change every hour, but tax rates are fixed annually or monthly. Therefore, it is all right to say that the two should cooperate with each other; in other words, each should attend to its own duties without interfering with each other; and taking "joint actions" is absolutely out of the question.

One of the goals of the proposal for taking joint actions in the fields of prices, taxes, and finances is "to create a competitive environment for enterprises with basically equal opportunities for all." For this reason, those who put forward the proposal designed "two supportive measures for restructuring the tax systems regarding primary and finished products. According to the measures, tax rates for primary products are linked with the price movements of products and price readjustments of finished products are linked with the products' tax rate movements." They also said: "The great majority of the income from the price increases of primary products should be turned over to the state through the resources

tax and the exchange tax. As for links in the production chain of finished products, the value-added tax should be imposed with the purpose of achieving the standardization of tax rates, and the prices of finished products should be readjusted on the basis of the guaranteed average profit rates for relevant industries.<sup>43</sup> These points show that the proposal still regards pricing as a distribution tool of the government. (The following phenomenon calls for deep thought: In formulating detailed plans for reform, some comrades, who have been talking about market-oriented reform every day, are still consciously or unconsciously following the standards of the planned economy, such as "the average profits rates for industries" and "linking price readjustment with tax readjustment." Such standards are completely incompatible with the market mechanism. This shows that we must on no account underestimate the existing influence the ghost of the planned economy that is still hampering our people's thinking.) This way of doing things will weaken price reform, which is originally aimed at readjusting the setup of production through changes in profit relations. In addition, when their joint actions are taken and when price controls are lifted, market prices will quickly deviate from the positions arranged by designers, but tax rates will not be able to move together with market prices. Then, what is the use of the large amount of hard work done to link the finished products' price readjustments with such products' tax rate movements and to link the primary products' tax rates with the products' price movements? The following points show the tragedy of taking joint actions in the fields of prices, taxes, and finances: Despite the fact that taking joint actions is general knowledge within the traditional system, it has always been difficult to actually take such actions owing to the failure to balance the interests of all relevant parties; and when such actions are reluctantly taken, they are changed beyond recognition. However, in conducting a market-oriented reform, the so-called joint actions will be completely unnecessary.

We should point out that within the design for taking joint actions in the fields of prices, taxes, and finances, there are many good tentative ideas about restructuring the tax system; such ideas can be put into practice separately. However, as tax reform and price reform have nothing to do with each other, the "synchronized supportive measure," which is aimed at achieving an integration of the two reforms, will actually hold up tax reform. (We think that interpreting supportive measures as synchronized actions or as a "package deal" is a great misunderstanding. If all people walk in a synchronized way, it will be difficult to walk. Reform is such a great cause. Promoting reform can be likened to playing the piano with 10 fingers: The fingers must not move at precisely the same time and only by doing so can there be coordination; and there cannot be and should not be any synchronized movements.)

As there are inner-cooperative relations between parts of tax reform and financial reform, there should be overall

planning for handling such relations. However, spreading errors or falsehoods is not allowed. For example, some comrades have lauded the tax sharing system to the skies, and it seems to them that with the implementation of this system, the relations between the central authorities and localities and the relations between localities and enterprises will be perfectly regulated. However, to implement the tax sharing system, there must be tax revenue that can be shared. A large country's idea about the space of a "locality" is simply different from a small country's. A large country's "localities" are larger than many countries and cannot live on some local tax revenues. As a large country has a vast territory, it inevitably faces the problem of unbalanced development. For example, if the provinces and regions in Northwest China are given all the tax revenues collected there, such tax revenues will not be enough to feed the population. However, if Shanghai Municipality is given the income tax revenues collected there, it will be an unbearable loss to the central treasury. In fact, one large country differs from another one in mode. According to the American method, local governments share the exchange tax revenues and income tax revenues. A few years ago, the great majority of the provinces in China implemented a method that is similar to the American method; now this method is being implemented by only a few Chinese provinces. The American method has created neither local administrative interference nor market blockades in the United States. However, a similar method has created quite a few problems in China. Such problems cannot be separated from the actual conditions of the Chinese legal system, the unified local party and government leadership, as well as the role played by local party and government authorities in functioning as the acting owners of enterprise assets under the system of public ownership. The problems are not just the problems concerning the financial and tax system. According to the Japanese method, revenues from exchange and income taxes are turned over to the central government; part of the local governments' incomes comes from local taxes; and the great majority of the local governments' income depend on the tax revenues that the central government sends back to them. The Japanese method is quite similar to the state of centralized control over the revenues and expenditures that existed in China for a long time prior to the country's reform. This way of doing things is denounced in China as everyone eating out the same big pot. However, the Japanese people are doing quite well in implementing this method. If people want to break a new path and to let local governments in China support themselves by relying on local taxes, they are not talking about tax sharing but are talking about the issue of finding new sources of tax revenues on a large scale. Generally speaking, a natural resources tax has a strong regional character. In fact, what the local governments will generally be able to rely on as their major sources of income are the tax on newly reclaimed land and land rent. The feasibility of having these sources of income requires further study.<sup>44</sup> The revenue-sharing method, which was implemented a few years ago, created serious losses in state revenues. After this, the state had no choice but once again to promote the system of localities taking responsibility for their own finances. It is thus clear that the

practice of bypassing essential issues and leading people to place excessively great hopes on some structural changes of subordinate nature will result in dashing people's hopes.

Then, is it true that "supportive measures" are not needed? Well, this is not necessarily so. For instance, they are needed in the field of restructuring the tax and financial systems concerning enterprises. Without restructuring the tax system for enterprises, there will be no profits that can be shared and there will be no property rights. However, those comrades who have called for taking joint actions in the fields of prices, taxes, and finances do not favor the aforementioned restructuring. They have said: "If we deviate from the basic prerequisite for establishing a market on the basis of the supportive restructuring of price, tax, financial systems, we are in no position to conduct a restructuring of the enterprise, banking, and foreign trade systems."<sup>45</sup> Promoting a tax-sharing system or a revenue-sharing system is not our current major task. The current major task is to conduct a division of property rights. Without a division of property rights between governments at all levels, the pluralization [duo yuan hua 1122 0337 0553] of public assets can hardly be realized. However, if this pluralization is achieved, enterprise management and enterprise assets will be under the control of different parties. Those comrades who favor taking joint actions in the fields of prices, taxes, and finances will disapprove such a change in the control of enterprise management and enterprise assets. It is thus clear that the point at issue during this debate between the two schools of economic thought in China is not whether it is necessary to have supportive measures. The concept of whether it is necessary to have supportive measures is an abstract concept. The fact is this: According to one school of thought, price readjustment should be regarded as the cornerstone of supportive measures; and according to another school of thought, the transformation of enterprise relations or the transformation of property right relations should be the starting point for considering supportive measures.

In brief, taking joint actions in the fields of prices, taxes, and finances is no more than a supportive measure. In other words, it is a tactical cooperative measure for revamping the traditional price system. Those, who describe this tactical cooperative measure as a great supportive measure for promoting reform and equate this cooperative measure with a fictitious competitive market system are actually creating "thrilling scenes" for themselves only. Comrades with this hallucinatory vision of prices think that they can surely rearrange the whole world as long as they are authorized by the state to regulate price signals. Of course, these comrades can hold on to their own views. However, it is inappropriate for them to describe the joint actions they have proposed as the indispensable way to adopt supportive measures for promoting reform and establishing a market system; it is also inappropriate for them to force their views on others.

## II. On Enterprise Reform

China's enterprise reform can roughly be divided into three stages or levels. The reform primarily shows changes in theoretical understanding and policy-making thinking. The three stages overlap, and we cannot rule out the possibility that many comrades' thoughts are still at the first or second stage.

### 1. The First Stage: Simplifying Administrative Processes and Transferring Power to Lower Levels (1979-1984)

This stage began with the expansion of the enterprises' decision-making powers in Sichuan. Prior to the first stage, Chinese enterprises were subsidiary bodies of administrative organs, and the state took over all the earnings of the enterprises and paid all their expenses. During the first stage, Chinese enterprises set up fixed enterprise funds, they were allowed to keep a portion of the profits for their own use, and they began to have their independent interests. A factory director then make an appeal, saying: "If I am authorized to give a 5-yuan bonus to my workers, I can make great changes in my enterprise." Soon after this appeal, numerous appeals were made throughout the country during the first half of 1984, calling for lifting limits on the amounts of bonuses. The first stage reached its last heartening high tide when RENMIN RIBAO carried the 50 Fujian factory directors' joint appeal for "untying" them. At the same time, many newspapers front-paged many reports that aroused the people not to rigidly stick to important documents. At that time, many people held the following general view: This time if we truly transfer powers to enterprises and if we do not just focus our attention on changing the status of enterprises as subsidiary bodies of administrative organs, our achievements in enterprise reform will be greater than all such achievements scored over the past 30 years and more, and our decontrol will be a real one and will not create chaos<sup>46</sup> Therefore, the "theory of an enterprise-based economy"<sup>47</sup> was truly the banner of this stage. The profound influence of this stage can be seen from the fact that its repercussions and resurgence were not only felt during our implementation of the system of contracted management responsibility of enterprises last year but have also been felt this year during our continuing experiments in creating "enterprises that are not subordinate to any higher authorities" as well as in "lifting all controls" on some enterprises.

### 2. The Second Stage: Creating a Competitive Environment With Equal Opportunities for All Enterprises (1983-1986)

With the preliminary development of the activities of transferring powers to enterprises, allowing enterprises to have more profits, and enlivening enterprises, a practical immediately problem emerged, namely, an unequal distribution of comforts and hardships. Under the traditional system, as far as enterprises were concerned, their use of funds, their geographical positions, and the prices of their products were arranged through state plans.

With unified state control over income and expenditures, enterprises under the traditional system faced no problem in their differences in funds, geographical positions, and prices of products. However, as enterprises have been allowed to have certain independent interests, such differences have created a serious unequal distribution. In addition, under the planning system, all the planned targets set for enterprises were based on the so-called "method of base figure." In fact, all the planned targets for enterprises were first set on the basis of the relevant base figures completed in the previous year and were then finally decided through bargaining. This way of doing things was not favorable to well-managed advanced enterprises, because it was hard for them to increase their output, which was fairly high already. All these problems sharpened the contradiction between the practice of transferring powers to enterprises and enlivening enterprises and the unequal distribution of comforts and hardships. It was against this background that the idea about replacing profits with taxes began to brew, thus influencing the state's policy decision on economy.

Judging from the angle of reform, although the detailed measures implemented in 1983 to carry out the policy decision on replacing profits with taxes were quite different from those implemented in 1984, their guiding ideas were all aimed at creating a competitive environment with equal opportunities for all enterprises. With the strong motive of safeguarding state financial revenues, comrades from some departments were undoubtedly quite resolute in enforcing the replacement. The relevant measures implemented in 1983 were: With the exception of a few enterprises with contracted undertakings, all other state enterprises were ordered to pay income taxes; and relatively large amounts of profits to be delivered to the state were turned into standardized tax revenues. This reform proceeded very smoothly. The reasons for its success were: It consolidated the forms of state revenues without touching problems concerning the distribution of after-tax profits from enterprises; and the method of sending part of after-tax profits to the state and having part of such profits retained by enterprises according to plans remained unchanged. In 1984, an original plan to carry out the policy decision on replacement of profits by taxes contained supportive measures that were designed to conduct reform on a large scale. The following were some of the measures in the original plan: Classified product tax rates should be used to alleviate and resolve the serious conditions of twisted prices as caused by the practice of linking taxes with price movement;<sup>48</sup> and the resources tax and particularly a tax on the use of fixed funds should be levied to resolve the diverse differences in the use of funds by enterprises. It was hoped that with the implementation of these measures, no after-tax profits from enterprises would be delivered to the state, and that there would be fair competition under a unified tax rate system. However, as the proportion of the product tax in the original plan was too large, it would mean that after paying the product tax, many enterprises would find that their profits were so small that they would be unable to pay



capital taxes. Capital taxes has nothing to do with profits, but is linked with the use of funds by enterprises. Although the program for calculating the capital tax rates was revised several dozen times, capital taxes failed to be admitted into the plan. In view of this situation, the study group of the graduates school under the Chinese Academy of Social Sciences then wrote five times to relevant departments and leading comrades, pointing out that the key to balancing the plan lies in reducing the product tax rates. They noted: If the capital tax is not included in the plan, it will be impossible to eliminate the diverse differences in external factors between enterprises, and it will mean that each of our enterprises will inevitably be given a special rate for profits to be delivered to the state, thus completely deviating from the policy thinking on reform and discrediting the replacement of profits by taxes. These views did attract relevant leaders' attention. However, for various reasons, these views could not influence the unwieldy administrative machinery moving along the fixed track. The finalized plan mentioned the following points: The capital tax should be abandoned; and to avoid the creation of serious unequal distribution of comforts and hardships, each of those large- and medium-sized enterprises with relatively more profits will be asked to pay a special regulatory tax that "replaces" profits to be delivered to the state. At first this plan was severely criticized by economic policymakers. However, in the face of the timetable indicating that there was not much time left, those policymakers were forced to accept the reality. (To those young people who have been engaged in economic reform for a short time, the 1983-1984 practice of replacing profits by taxes meant a very good training on the eve of a great change. Through their own experience, they understand the reason the unwieldy machinery under the traditional system always failed to do things that it seemed to be capable of doing, thus casting away illusions about the possibility of achieving some major targets of reform within the framework of the traditional system.)

By looking at the surface of things, it seems that the 1984 setback in replacing profits by taxes was merely due to technical problems caused by an excessively large proportion of product tax. In fact, the setback indicated the shattering of illusions that without completely abandoning the old system, a fair and effective competitive environment could still be established for enterprises through ingenious technical arrangements. In October 1984, a few months after the promotion of the 1984 plan for replacing profits by taxes, those comrades who firmly believed in the first place that the capital tax could eliminate the diverse differences in external conditions between enterprise began to see their own childishness. They also began to understand that owing to our socialist country's dual capacity as "the formal representative of our society" and as "the owner of the means of production," tax revenues can be used for resolving the representation issue only, and that the ownership issue can only be resolved through the issuance of "capital dividends" or "dividends." The failure to distinguish

between the two types of issues has been the "root cause" of "our long-standing problem in having fluctuating distribution relations between the state and the enterprise." "Due to the fact that the fixed capital tax cannot be brought into correspondence with the fluctuating capital prices in the capital market," the role of the fixed capital tax in the traditional system is practically a superfluous one, and the role of a fixed capital tax in the planned commodity economy is not a popular one, as it is seen to be a bit clumsy.<sup>49</sup> People later realized that the accounting price of assets is different from the real price of assets,<sup>50</sup> and clearly proposed that the "separation of profit and tax" be regarded as the starting point for conducting assets reform.<sup>51</sup>

If the replacement of profits by taxes conducted in 1984 can be described as the pinnacle of the attempt to create an environment with equal opportunities for all, we can say that the disappearance of this slogan [about creating an environment with equal opportunities] in the forward position of the Chinese research on economic reform was quite a sudden one. We think that there are two reasons for the sudden disappearance. First, the inflation of the general demand at the end of 1984 changed the people's field of vision and enabled them to review the enterprise issue from a completely new angle. As a result, they realized that the enterprise issue does not just mean strengthening the vitality of enterprises and creating a competitive environment with equal opportunities, and that there is an issue concerning the rationalization of enterprise behavior. Second, with a market-oriented reform being clearly defined as the way forward, the mention of creating a competitive environment with equal opportunities appeared to be out of keeping with the times. This is because a competitive environment with equal opportunities implies that the state can bring about a separation of returns from all production factors; if the state is really capable of doing this, there is no need to conduct a market-oriented reform. In fact, even in a market economy where a separation of returns from production factors can be generally or fully realized, competition between enterprises cannot be conducted on a completely equal footing due to diverse differences in conditions between the enterprises. Drastic changes in market prices or great fluctuations in supply and demand frequently create favorable conditions for some enterprises, and also create problems or disasters for some unlucky enterprises and enterprises with inopportune timing. Modern market structures characterized by monopolistic or oligopolistic competition are quite common in the world. Such market structures are typical examples of unequal competition in the fields of capital, technology, loan conditions, and price. However, in conducting reforms, some socialist countries have comprehensively used various types of levers, including prices, tax revenues, subsidies, and wages, in an attempt to create a competitive environment with equal opportunities for all enterprises. Owing to the fact that unequal conditions in public enterprises were determined by the special state-enterprise relations, and that they are the

conditions "inherent" in the system, these socialist countries have failed to bring about equal opportunities. With the deepening of their reforms, they have fallen into an increasingly passive position and have been bogged down in a circle of state policies and enterprises' countermeasures. Therefore, people have begun to suspect that the good intentions of creating a competitive environment with equal opportunities for all enterprises are probably the wrong navigation marks, indicating the way to the "Bermuda Triangle."

Some comrades once again proposed in 1986 that the ingenious supportive measures for restructuring the pricing, tax, and financial systems be implemented to create a competitive environment with equal opportunities for all enterprises, and they have continued to publicize this kind of proposal in 1988.<sup>52</sup> However, their proposal has evoked very weak reactions. With the progress of reform and with the promotion of discussions on issues concerning enterprise assets, most comrades within the economic circles no longer stay at the old level.

### **3. The Third Stage: Proceeding From Poverty Relations, Resolving Enterprise Restructuring Issues (1985-1988)**

It is imperative to proceed from property relations and to restructure China's state enterprises in the form of the stock system. This idea was originally put forward by experts from the World Bank in 1984.<sup>53</sup> They suggested that the assets of Chinese state enterprises be divided into shares, and that the government departments in charge become shareholders. At that time, their suggestions did not arouse sympathy within the Chinese economic circles. There are two reasons for this. First, Chinese economists were anxious that the suggestions would mean a strengthening of administrative interference. Second, the practice of the Chinese reform at that time did not make such demands. The inflation of the general demand at the end of 1984 quickly changed the trend within the Chinese economic circles and inspired many Chinese economists to reflect on issues. In early 1985, income inflation and enterprise behavior became popular topics of economic research. Immediately after this, two young scholars took the lead in proposing that the stock system be implemented by enterprises so as to enable enterprises to completely free themselves of government and administrative controls.<sup>54</sup> From the angle of banking reform, graduate students of the banking research institute under the head office of the People's Bank of China further evolved their thinking on the issue of the capital market, which was first discussed by them in 1984. In the autumn of 1985, the authors of this article and some other people put forward the idea about an assets management responsibility system, and they called for reassessing original state assets and restructuring micro foundations.<sup>56</sup> At the same time, the Chinese Institute of Economic Structural Reform stated that the reform "has entered a new stage," and that it is imperative to "transcend the method of thinking that has oversimplified the issue of decontrol." From the angle of promoting the strategy for reform, the institute proposed

that while improving the double-track price system for products, it is imperative to develop both the labor and capital markets.<sup>57</sup> Incidentally, both the group's article and the aforementioned article "On the Restructuring of Microeconomic Foundations" affirmed the positive role played by the practice of transferring powers to enterprises and allowing enterprises to retain more profits during the initial stage of reform. In his article carried by JINGJI YANJIU No 2, 1987, Comrade Wu Jinglian quoted passages from the two articles that affirmed the aforementioned positive role, and then described the two articles as representative of those who advocate the application of old thinking to promoting reform. The authors of the two articles then showed tolerance toward this. After this, in his article carried by GAIGE No 1, 1988, Comrade Wu Jinglian said: Some people from academic circles "think that the correct way to choose items for our reform program is to avoid the difficult and dwell on the easy. They call for abandoning the plan for restructuring the price, tax, financial, and banking systems. they advocate that the practice of 'transferring power to enterprises and allowing enterprises to retain more profits' be regarded as the major measure for conducting 'micro reform' of key enterprises." Next, he named names and criticized other "mistakes" made by the "group advocating micro mechanism." Comrades who were criticized by him have found it impossible to accept this kind of criticism. In short, the exploration of "macro regulation of micro foundations" was the general trend within the Chinese economic circles in 1985.

However, since the beginning of 1986 there has been a debate about the urgency of enterprise reform. Judging from the surface of the debate, there were three types of viewpoints. First, those comrades who advocate taking joint actions in the fields of prices, taxes, and finances proposed that enterprise reform be preceded by price reform. Second, some comrades proposed that price reform be preceded by ownership reform.<sup>58</sup> Third, a large number of comrades disapproved the practice of setting price reform against ownership reform, saying: Price reform and ownership reform have always been inseparable; the point is whether the two reforms have been promoted at the same speed. Let us leave aside the purely theoretical arguments. The various parties' views are divergent on the key question: What was the link that caused the serious stagnant condition of our reform at that time?

As far as those comrades who advocate taking joint actions in the fields of prices, taxes, and finances are concerned, the answer to this question seems to be so obvious that there is no need for further explanation. they said that the stagnant condition of price reform at that time was already quite serious. The "feasible scheme" they put forward for solving the problems means this: "While carrying out the measures to enlarge the decision-making powers of enterprises and making experiments in reform of the enterprise management system, it is imperative to stress" taking joint actions in the fields of prices, taxes, and finances."<sup>59</sup> However,

those comrades who advocate proceeding from micro mechanism noted: Our price reform conducted since 1985 through a combination of decontrol and regulation has already scored substantial achievements in disintegrating old systems and promoting market mechanism. By comparison, "the microeconomic cells [xi bao 4799 5165], which constitute the foundation of our entire economic structure, have not been remoulded fundamentally or have been remoulded little." Enterprises constitute a principal part of the market. The lack of true enterprises has brought about a poor market development as well as hidden problems in "imbalance and chaos," with revenues being increasingly out of control. Therefore, while further promoting the integration of decontrol and regulation and the activities of consolidating and expanding the existing markets as well as organizing the establishment of new markets, we must pay close attention to the enterprise system, a weak link in a seriously stagnant condition, and "fundamentally transform" or "fundamentally remould" this system.<sup>60</sup> They added: In addition to pursuing uniform, standardized distribution relations between the state and the enterprise, those who advocate taking joint actions in the fields of prices, taxes, and finances have also shown two misunderstandings. First, they equate the state's attempt to regulate economic parameter with the establishment of market mechanism (in fact, "regulating" systems has nothing to do with market mechanism), and disregard the existing market and its mechanism. Second, they mix the enterprise's supply-and-demand reaction to prices with the enterprise behavior that was determined by the enterprise's restrained right to enterprise assets. In the Western economy, there have also been cases of prices being twisted by government controls on prices. However, due to the fact that restraints of the enterprise's right to enterprise assets in the West are clearly defined, such twisted prices will affect the disposition of resources only and will not affect the characteristics of enterprise behavior (such as the drive to maximize long-term profits or assets). Therefore, it is not correct to link the rationalization of enterprise behavior with the price system.

Since 1985, theoretical discussions on enterprise reform have been basically progressing along two threads.

First, the discussions proceeded from achieving a clear understanding of property rights in order to resolve issues concerning the forms of property structures and property management. In view of the existence of huge state assets, some comrades said: First of all, we should establish separate management systems of state assets, set up companies for managing state assets that will compete with the one another, and then allow them to organize and manage state assets on the basis of their assessments of investment risks and the rate of return on assets. This work should be based on a social assessment of the existing enterprise assets' functions in a simulated market.<sup>61</sup> On the other hand, there have been more discussions on the way to organize and manage the pluralistic form of property rights, namely, the stock

system. The great majority of the comrades within the theoretical circles have approved the adoption of a stock system for public economic sectors. Issues concerning stockholders and ownership are some of the focal points of their debate. People suspect that if the state controls the great majority of shares or all shares, there will be no essential difference between this kind of control and the government's direct control. Another focal point of their debate is about the issue of enterprise shares being held by enterprises themselves. Those who favor enterprises holding all enterprise shares said: This is the key difference between socialist joint-stock companies and Western joint-stock companies. If enterprises are allowed to hold all their enterprise shares, there will be no administrative interference carried out by the state in the capacity of shareholder nor will there be interference from individual shareholders from the outside world, thus ensuring the long-term stability of enterprise behavior. A few of these comrades have also publicly called for implementing an enterprise ownership system. Those who oppose enterprises holding all enterprise shares said: The proposal for enterprises holding all enterprise shares shows a misunderstanding of the stock economy. If this proposal is carried out, it will disrupt enterprise property right relations in another form. As enterprise operators represent all shareholders, they should not be partial to shareholders working in their enterprises. If enterprise shares are held by staff members and workers and as they are constantly on the move, they should have the right to give their shares to other people; if the state makes it a rule that they should not give their shares to other people, the state then seems to have enterprise ownership. Although individual shareholders are generally regarded as important factors, few people think that individual shareholders will constitute a principal part of the stock system. Judging from these points of view, we can say that although issues concerning the stock system are being discussed in China, such issues are unlikely to be resolved in a very short time.

Theoretical discussions on enterprise reform have also been progressing along another thread. This means achieving a clear understanding of property right relations and making concerted efforts to resolve the management issue; namely, the separation of ownership and management rights. This exploration began with allowing three types of enterprises to be operated by lease; namely, collective enterprises, enterprises that are in the red, and enterprises with meager profits. According to this leasing system, a leaseholder has to offer some property as collateral security; operators of such enterprises occupy prominent positions; operators' responsibilities are clearly defined; hefty bonuses or heavy penalties will be meted out to operators in accordance with their performance and tenders are invited under certain circumstances. In addition, the "assets management responsibility system" has progressed from the theoretical stage to the planning stage. Those who are engaged in formulating the plan for implementing the "assets management responsibility system" noted: The establishment of modern property right systems has close relation

to the formation of the stratum of entrepreneurs or the stratum of professional managers. In particular, Chinese enterprises not only face problems in economic restraints but also face very serious problems in noneconomic restraints. There must be a genuine remoulding of our enterprise system; otherwise, the party committee will inevitably be renamed as the board of directors, a change in form but not in content. Therefore, they made the following suggestions: First of all, we must change the system of appointing people leaders of enterprises in the form of administrative order, institutionalize the methods of selecting enterprise operators through competitive means such as calling for tenders, and use the right to invite tenders once again to keep operators within the bounds of short-term agreements. In addition, the competitive process of selecting operators through inviting tenders should be used as a method to assess enterprise assets and should also be integrated with competitive labor groupings within enterprises.<sup>62</sup> In the past, small enterprises that were in the red did engage in inviting tenders and advertising for qualified personnel. However, large- and medium-sized enterprises were urged this time to engage in inviting tenders, and it would be very difficult to skirt around the system of inviting tenders if it was "institutionalized." As a result, the proposal in this regard evoked a heated debate. Some people described the method of inviting tenders as being incompatible with market economic rules, and some other people described it as a wild scheme formulated behind closed doors. During experiments made later in implementing the assets management responsibility system, it was proposed that a board of directors comprising the representatives of owners, operators, and workers be established to balance interests within enterprises. As the practice of reform showed no demand for this proposal, it was without result. Generally speaking, although the exploration made along this train of thought has made some enlightening achievements, it has failed to clearly explain the relations between the restraints of property rights and operators.

Of course, practice has never been as pure as theorists have imagined. Just as the 1986 project to take joint actions in the fields of prices, taxes, and finances miscarried owing to its failure to balance the interests of various groups, the lot of the practical plan for implementing the stock system and the assets management responsibility system has not been any better than the 1986 project. The stock system has not been implemented by large- and medium-sized enterprises, but it has been implemented by small and collective enterprises. However, only a few joint-stock companies in China have been established on the basis of truly following the principles of the stock economy. Without making a thorough assessment of their assets, many joint-stock companies have arbitrarily issued shares and have also energetically publicized their pledge to issue dividends. On the other hand, at the initial stage, the assets management responsibility system seemed to have had some influence on the policy decision on the contracted management responsibility system of enterprises. Next, when

departmental plans were being formulated, the base figure that determines distribution relations between the state and the enterprise was put into such plans. As a result, the past practice of bargaining with each other about the base figure regarding contracted undertakings was revived. In addition, owing to the lack of an institutionalized system for handling competition between operators, every participant was allowed to choose whatever form they wanted. Within a few months, the great majority of localities and enterprises naturally chose the form of contracted undertaking and declined the form of competitive bidding. On the other hand, enterprises engaged in implementing the assets management responsibility system have been pouring out endless grievances, saying that the system means inhibitions and that they have not been given any benefits for implementing the system. Fortunately, since mid-1987, the central authorities have repeatedly stressed the necessity of advertising for an appointing enterprise operators in accordance with the principle of competition, energetically promoted the practice of optimization of labor groupings in enterprises as well as reform of the employment system, and expedited the transfer of property rights among the enterprises with contracted undertakings, thus injecting fresh blood into the contracted system.

Looking back on the difficult course of the restructuring of the Chinese micro foundations through theoretical designing and practice over the past few years, we can see that although the great majority of the comrades engaged in exploring the restructuring have expressed deep doubts about taking joint actions in the fields of prices, taxes, and finances, they have not directly opposed this kind of "supportive measures" nor have they put forward any "overall plans" to contend with the "overall plan" formulated by those who advocate the joint actions, thus putting themselves in an unfavorable contending position. It is not difficult to understand their reasons for doing so. It is true that they have realized that the existing enterprise system is incapable of supporting market economic operations (This issue was completely ignored by earlier overall plans. For example, in 1985 Comrade Guo Shuqing and others discussed issues concerning an overall plan for reform in the book "An Overall Plan for Economic Reform in China." Their discussion did contain some enlightening ideas, such as the proposal that the main target of reform at the first stage should be the establishment of a successful commodity market, and that the main target of reform at the second stage should be the establishment of a complete market system. However, they just put forward the following points about the enterprise mode at the first stage: "It is imperative to steadfastly simplify administrative processes and transfer powers to lower levels" so that "after-tax profits made by enterprises will be used to form various funds in accordance with the relevant ratios established by the central authorities." What they said about the enterprise mode at the second stage was just that it is imperative to allow "enterprises to freely dispose their after-tax profits. The 1986 plan for taking joint actions in the fields of prices, taxes, and finances



did not make much progress on this basis. Since the beginning of 1987, with the exception of a few people continuing to stay at the previous level of understanding, most comrades engaged in formulating plans have put forward plans that incorporated many new successful experiences in enterprises reform, thus showing that their plans are relatively comprehensive. It is thus clear that differing economic viewpoints do not absolutely repel one another and that one can learn from others' strong points to offset one's weaknesses.) At a time when the restructuring of new foundations is still in the design stage, and as every assertion about one's ability to complete the designing of a mansion [da xia 1129 0633] has only led them to a deeper exploration of new issues, they are really not willing to indulge themselves in talking about an "overall plan" for a mansion. (In fact, the concept of mapping out an overall plan for reform of the economic structure on the basis of commodity economy actually was first put forward by these comrades. Please see the thesis "On a Tentative Overall Plan for Reform of the Chinese Economic Structure—Part One," written by one of the authors of this article. this thesis was distributed during the Moganshan conference in September 1984. The author stopped evolving the tentative plan after realizing the profoundness of the relevant issues. Because of this, they [not specified] unjustly accused the author of "rejecting the overall plan" and of "advocating the necessity of avoiding the difficult and dwelling on the easy." What is "easy"? What is "difficult"? Do they know the answers? They also accused the author of advocating the practice of "groping one's way without a plan" and of favoring the principle that "straw sandals need not last; the shape comes with the weaving." [the principle means: work things out as you go along] If everyone is forced to subscribe to the plan "to create a market system through the implementation of supportive measures for restructuring the price, tax, and financial systems," we think that this will at the least be detrimental to achieving the target of enabling "economic sciences" to "grow and flourish.") The fact is that the realistic truth-seeking explorations made by the comrades engaged in micro restructuring as well as other comrades from the economic circles have done away with three types of hallucinatory perceptions which can most easily lead people onto wrong paths. They are: The hallucinatory perception of prices; the hallucinatory perception of "a competitive environment with equal opportunities for all"; and the hallucinatory perception of currency, which we shall discuss in the following part of this article. With their doing away with the hallucinatory perceptions, the outline of a mansion has become increasingly clear.

### III. On the Management of General Demand

The management of general demand has become another focal point of the discussions conducted by the theoretical circles and departments engaged in practical work over the past few years. the causes of these discussions or debates are: there have been differing analyses of the causes of the situation of general demand which emerged at the end of 1984, and there have also been differing

analyses of countermeasures adopted to handle the situation. In addition, with China's introduction to all kinds of foreign academic trends of thought, the discussions have appeared to be more complicated and confusing. to put it briefly, the theoretical debates have primarily revolved around the the following three aspects.

#### 1. The Causes of the Inflation of General Demand and the Tackling of This Inflation

Chinese theoretical circles have been engaged in studying issues concerning general demand for a long time. As China's reform began with the criticism of the pernicious influence of the ultra-leftist line, people at that time regarded the inflation of general demand and various related imbalances as the products of the ultra-leftist line, described them as the disastrous effects created by "the undue priority given to the pursuit of high speed," and believed that the national economy could achieve an overall balance through changes made in their guiding ideology and development strategy. this understanding of the situation was based on the people's generalization and summation of historical experiences (in particular, the positive and negative experiences in the "great Leap Forward" in 1958 and the large-scale economic readjustment in the early 1960's), thus showing some knowledge of truth. the readjustment of China's development strategy in the early 1980's resulted from the policy based on this theoretical knowledge.<sup>63</sup> However, the development of the practice at a later stage impelled people to think further about the following questions. Why is it that the problem in giving undue priority to the pursuit of high speed has never been thoroughly solved? When this problem seemed to have been solved at a stage, it always returned at another stage (always at a stage when the economy had taken a turn for the better). What are the causes of this phenomenon? Why is it that this phenomenon not only occurs in China but also occurs in other socialist countries? Judging from the pattern of the emergence of an inflated general demand, we can see that the inflation of general demand always occurs at a time when an insufficient general demand occurs in capitalist countries. Why is it that there is always such a sharp and striking contrast? The questionable points in theory and practice have impelled people to reflect on these issues.<sup>64</sup> During this stage, with Ke Er Nai's "Shortage Economics" being publicized in China, and particularly with changes in the motives of enterprise behavior being made since 1984 following the acceleration of the practice of "transferring powers to enterprises and allowing enterprises to retain more profits" as well as the emergence of the relatively independent interests of the enterprises, there has been at the least a weakening of the pressure exerted by superior departments on the departments under them in the field of giving undue priority to the pursuit of output value and speed, and there has also been a weakening of conduction [chuan dao 0278 1418] mechanism. However, the latent trend of expansion within the economy not only has not been eliminated but has actually been growing from strength to strength. Because of this fact, more and more comrades have

achieved this understanding: The inflation of general demand was probably not caused, or not primarily caused, by policy faults but was due to the lack of restraints within the economic system; the inflation of general demand was probably not caused, or not primarily caused, by errors in the macro guiding ideology, but was due to the irrational structure of the microeconomic foundations. (The following conditions can be proved in terms of theory: Under the traditional system, as long as production units have an inclination for excessively possessing or spending funds—such an inclination means having soft budgetary restraints—or as long as production units conceal their productive capacity and do not provide socially necessary products in accordance with their input scale, general demand will inevitably be greater than general supply even if there is no problem in “giving undue priority to the pursuit of high speed. This means that the emergence of high speed just displays the imbalance in supply and demand, which is a contradiction or pressure within the economy. This also shows that the rigid traditional mode of planned balance is not the cause of the imbalance in supply and demand. These points can be found in Zhang Xuejun’s article “A Theoretical Demonstrative Model of the Contradiction Between General Supply and General Demand in China,” which was carried by JINGJI YANJIU No 11, 1985.) This change in understanding has exerted a profound and lasting influence on the development of economics and theories of economic reform in China. We can say that many studies, including the following ones that have sprung up like mushrooms since 1985, have been directly inspired by this change in understanding: the study of enterprise behaviors; the study of key market elements such as labor force and capital; and the study of the micro foundations of ownership and economic operations.<sup>65</sup>

However, in analyzing concrete macroeconomic issues, some comrades (including those comrades who have accepted structural analysis while criticizing the shortcomings of the traditional system) have always consciously or unconsciously returned to the traditional position on “policy exposition.” For example, according to a prevalent viewpoint, “The growth of demand that emerged after the last quarter of 1984 was not a spontaneous one but was set off by two ‘thermal currents,’ namely, the current that encourages competition to find out who is best at fulfilling the plan for ‘quadrupling output value’ ahead of schedule, and the current that advocates ‘high consumption’ and encourages people to spend the money they have earned. As there can be doubt that the growth of general demand was caused by people’s mistakes, how can we describe it as an objective necessity?” Therefore, “we must no longer be irresolute in adopting macroeconomic policies.” According to the comrades who hold this viewpoint, the important question is not about the economic structure or micro foundations; the important question is about “adopting proper macroeconomic policies”; and these points constitute “the most important economic theory and policy debate in China in 1985.”<sup>66</sup> However, facts that emerged

later show that the two-point analysis of the growth of general demand in 1984 was perhaps an excessive generalization. “Advocating high consumption” can at the most stimulate the people’s latent desire for consumption; without the backing of high income, this desire cannot be turned into a real demand for consumption. On the other hand, the political pressure on “quadrupling output value ahead of schedule” has primarily affected state sectors only. This pressure has not produced much substantial influence on the non-state sectors that assume exclusive responsibility for profits and losses. The growth rate of industrial output value produced by enterprises under ownership by the whole people in 1984 reached 8.9 percent only. This figure is even lower than the average annual growth rate of 11.5 percent achieved during 1953-1978 period. The 1984 growth rate, which was said to have been stimulated by the proposal for “quadrupling output value ahead of schedule,” was apparently incapable of setting off the growth of general demand. In fact, over the past few years, enterprises that are not under ownership by the whole people and depend on markets for existence have achieved growth rates that are several times higher than those achieved by enterprises under ownership by the whole people. Their high growth rates have been the major factors in the creation of an overheated economy as well as economic fluctuations. The following table shows the gross value of industrial growth rates achieved during the 1984-1987 period by all industries under ownership by the whole people (AIUOBWP), all industries under collective ownership (AIUCO), village-operated industries under collective ownership (VIUCO), township industries under individual ownership (TIUIO), and other industries (OT).

Comparison of Gross Value of Industrial Growth Rates  
Percentage

Year	1984	1985	1986	1987
Grand Total	14.0	18.0	8.8	14.0
AIUOBWP	8.9	12.9	6.2	11.0
AIUCO	29.8	30.9	14.6	25.0
VIUCO	30.3	37.8	28.2	28.2
TIUIO	97.3	125.7	-12.6	48.0
OT	56.8	39.5	33.7	98.0

The figures in the table come from two sources: the Chinese Statistical Yearbooks, 1984-1987; the Summary of Chinese Statistical Data, 1988.

Differing assessments of the causes of the growth of general demand lead to differing countermeasures to exercise macro control over the situation. Those comrades who think that the growth of general demand resulted from the policy on pursuing high speed have stated with certainty: “Through the readjustment of the development strategy, in other words, if we abandon the strategy to use the overissuance of paper currency as a

means to promote growth, a relaxed economic environment will be formed in due time," and this kind of environment can even be "created primarily through administrative means."<sup>67</sup> However, people with another viewpoint have said: With the deepening of reform, the old and new systems now coexist in China. Judging from the angle of those engaged in the study of macroeconomic issues, the greatest change brought by the new system is that the incomes of staff members and workers have to a large extent broken away from government administrative control. In other words, the incomes are primarily determined by enterprises and other microeconomic units. Due to the lack of clearly defined property relations, or due to the existence of an irrational structure of micro foundations, the existing systems do not and cannot effectively restrain the behavior of enterprises, staff members, and workers. As a result, the impulse to expand the incomes of staff members and workers has become the most unstable factor in our economy. In other words, the incomes of staff members and workers have become the most difficult macroeconomic variable to control. The expansion of the incomes of staff members and workers have always been the pivot that caused growth of general demand (an increased income promotes an increase in money supply).<sup>68</sup> When the government adopted administrative deflationary policies to restrain the growth of general demand, the incomes of staff members and workers not only were seldom affected by such policies but actually maintained relatively high growth rates. In addition, during the process of monetization, there was a vicious growth in group consumption, and local governments always left the central authorities with the most knotty problems such as their failure to fulfill the plans for purchasing agricultural products. As a result, all the deflationary pressures were absorbed by enterprises (primarily in the field of circulating funds) and the central treasury (in the form of deficit or nation debt). When general demand was being restrained, the general supply always fell by a bigger margin as compared with the fall in the general demand. In other words, the original high-level gap between supply and demand was turned into a low-level gap between supply and demand. the gap itself was still there and was not even lessened. the change was that the production level was much lower than the previous one. (under the traditional system, as the wage variable can be directly controlled by the government, it is possible to find during the process of deflation a low-level (meaning that general demand is smaller than the latent general supply) equilibrium point between supply and demand (meaning that general demand is equal to the real general supply). However, under the current system in China, as the wage variable cannot be readjusted [tiao 6148], a deflationary policy can only push general demand down to a level where the demand is smaller than the latent general supply, but cannot guarantee that the latent general supply will be equal to the real general supply. This is the general meaning of a low-level gap between supply and demand. These points can be found in Zhang Xuejun's article "A Theoretical Demonstrative Model of the contradiction Between General Supply and General

Demand in china," carried by JINGJI YANJIU No 11, 1985. Generally speaking, a high-level, or inflated, gap between supply and demand brings about relatively great pressure on prices, and a low-level, or sagging, gap between supply and demand brings about relatively direct pressure on finance. (This shows that macro policy choices are in fact restricted within a narrow and small space.) In addition, under the current system, as there can be no automatic readjustment in the size of assets in accordance with changes in supply and demand, and as the state function of disposing and redistributing resources through centralized investment has been greatly weakened, some resources have always been in a semi-idle or idle state and effective supply has been falling short of demand, thus further sharpening the contradiction between general supply and general demand.<sup>69</sup> On the basis of this understanding, these comrades noted: Under the current conditions in China, as the effects of the monetary policy are very limited, we must not copy indiscriminately the hearsay "Western experience" nor must we copy indiscriminately the "Western experience" that is based on one school of thought only. (For example, the so-called West German experience in monetary control is in fact its experience in wage "control." The British economic successes won by the Thatcher government in recent years were based on the government's achievements in fundamentally weakening through strong measures the monopolistic position held by the British trade unions for more than a century in wage negotiations. The fall of prices in Britain has occurred after the British government replaced the control on money supply with the readjustment of interest rates. In fact, when Western economists talk about price-currency relations, their focus is essentially on wages or the price of labor. According to the famous Phillips curve, wage growth rate and the inflation rate are interchangeable variables.)

Then, how do we treat our historical experiences? those comrades who have called for "vigorously putting on the brakes" have repeatedly told people that the experience gained in "the further readjustment of the economy in 1981" has shown that the party and government can create within a relatively short time a partially buyers' market as long as they resolutely carry out administrative mandatory measures to depress general demand.<sup>70</sup> However, as there have been some qualitative changes in the Chinese economic structure over the past few years, an application of "historical" experiences under these new circumstances cannot produce the effects that could be produced under the past circumstances. The following are some examples. During the economic downturn in 1981, the industrial production growth rate reached 4.1 percent as compared with the previous year's 8.7 percent; the growth rate of total wages of staff members and workers reached 6.1 percent as compared with the previous year's 19.5 percent; the growth rate of average wages reached 1.3 percent as compared with the previous year's 14.1 percent; and after taking the inflation of prices into account, the real average wages fell by 1.2 percent as compared with the previous year. However,

the following results of the 1986 downturn are quite different from those of the 1981 downturn: Although the industrial production growth rate reached 8.8 percent, a sharp fall as compared with the previous year's 18 percent; the growth rate of total wages of staff members and workers reached 20 percent as compared with the previous year's 22 percent, the growth rate of average wages reached 15.8 percent as compared with the previous year's 17.9 percent, the real average wages increased by 8.1 percent as compared with the previous year's 5.3-percent increase, and group consumption also showed increases as compared with the previous year. According to available statistical figures, the deflationary policy on finance and banking adopted by the central authorities by the end of 1987 has produced the following effects on the country during the first half of this year: As compared with the first half of 1987, expenditures in the field of the wages of staff members and workers and other personal expenditures increased by 23.7 percent; institutional purchases increased by 19.8 percent (the absolute value of the institutional purchases is 2.7 billion yuan more than the sum of national educational expenditures and urban maintenance and construction expenditures during the same period this year); and administrative expenditures as well as enterprise management expenditures showed a sharp increase of 46.5 percent. In addition, in July this year administrative expenditures as well as enterprise management expenditures actually showed an increase of 60 percent compared with July last year.<sup>71</sup> The results of the administrative policy on monetary deflation in China have gone from bad to worse. The root cause of having such results lies in the fact that this policy has been repeatedly defeated by its unbeatable rival, namely, the rigid mechanism of income.

Some East European countries are currently carrying out reforms. It is really worthwhile to use their experiences and lessons for reference. Owing to its failure to resolve its mechanism issue, Yugoslavia's inflation has now reached 190 percent, despite the fact that the country has been fighting inflation for nearly 10 years. There have been political and economic upheavals in Poland. Following the enforcement of martial law in Poland, the spiralling increases in wages and commodity prices have continued unabated: During the first half of this year, the wages of staff members and workers in the public sectors increased 57.5 percent and retail prices increased 49.4 percent. Establishing a proper "ratio between prices and incomes" has been regarded as "the most difficult issue" in Poland. Since 1979, Hungary has "made great changes in its economic policy. The basic contents were: Making big cuts in capital construction investment and and depressing the continued rise in consumption and purchasing." These measures then caused economic "stagnation and deterioration." In the face of numerous pressures, "the 13th national party congress held in 1985" decided "to give first priority to speeding up economic growth and to put reform in the second place." Due to Hungary's "laissez-faire attitude" toward "wage management," the country's programs for development

and reform have been bogged down in a quagmire.<sup>72</sup> It is thus obvious that a "relaxed environment" for reform cannot be created by the practice of bypassing the essential issue of economic mechanism and applying administrative measures at the expense of economic development.

## **2. The Trend of Changes in the Inflation of General Demand: Is It A Straight-line Development Or a Cyclical One?**

People differ from one another on the causes of the growth of general demand. They also sharply differ from one another on interpreting the trend of changes in the growth of general demand. The concentrated expressions of such differences can be found in their differing assessments and analyses of the development of the Chinese economic situation over the past few years.

The following are the points made by those who maintain that the development is a straight-line one: Since the emergence of the serious growth of general demand in the Chinese economy at the end of 1984, the country has been unable to break away from the trend of expanding general demand for several years in succession. Although the 1985 deflationary policy produced some effect, "general demand continued to be greater than general supply." In particular, during the February-March period in 1986, due to the proposal for "using the expansionary monetary policy to promote growth at a high speed" gaining the upper hand, there was a sharp increase in money supply, thus ringing about a "further growth" of the then uncontrolled general demand.<sup>73</sup> According to this viewpoint, those comrades who pointed out at that time that "strengthening macro control is not tantamount to comprehensive deflation" can actually be described as accomplices in the growth of general demand.

Comrades who maintain that the development is a cyclical one have said: Although the growth of general demand is an unavoidable mechanism phenomenon, this does not mean that it is an ongoing process of straight-line development. In fact, economic movement itself is a cyclical one. It does not repel economic "resurgence" and "upswing" just because "surplus" is a general characteristic of the capitalist economy nor does it repel "recession" and "depression" just because "shortage" is a general characteristic of the socialist economy. This point has been proved by the development of the Chinese economy which has lasted nearly 40 years. (Many scholars have studied the cause of the Chinese economic cycle. For example, some scholars think that the economic cycle is determined by an interaction of investment and industrial production. In other words, construction projects that have not been put into operation display demand, and construction projects that have been put into operation display supply. Some other scholars think that the formation of the economic cycle is closely related to the spontaneous fluctuation of agricultural production. Relevant points



can be found in the following three articles: Li Yining's article "An Hypothesis About the Socialist Economic Cycle," carried by JINGJI YANJIU No 9, 1987; the article "on the Foundation of High Industrial Growth Rate," written by the Macrostructure Section Under the Institute of Chinese Economic Structural Reform and carried by JINGJI TIZHI GAIGE YANJIU BAOGAO No 7, 1986; and Cui Heming's article "A Preliminary Test and Analysis of the Investment-Industry Cycle in China," carried by JINGJI FAZHAN YU TIZHI GAIGE No 4, 1987. Although there should be further discussions on the nature and cause of the cycle, the objective existence of the economic cycle is an undeniable fact.) Although a government macro policy can change the economic cycle's frequency, amplitude, and shape, it cannot eliminate the cycle per se.

On the basis of this understanding, when the growth of general demand was on the verge of coming into being by end of 1984, these comrades not only pointed out the risk of having such a growth of general demand but also pointed out its new major characteristic; namely, that it will be preceded by the growth of income. In addition, they noted: "The tendency to enhance short-term gains and shy away from long-term planning as produced by the changes in enterprise relations in terms of interests has given an impetus to the growth of general demand." They added: Owing to the publicity given to the popular practice of outdoing others in income, "many administrative units have racked their brains trying in every possible way to achieve monetary gains through the abusive use of their powers. They have brazenly accepted bribes, and unscrupulously demanded things from enterprises and peasants. Things have reached such an extreme extent that almost all party, government, military, civil, and educational organizations have gone into business." They stressed the corrosive effects of "unbalanced group consumption," saying that such consumption has promoted inflation. They also noted: As the "old practice of conducting readjustment only after the event" has enabled all main economic bodies with independent interests to achieve a "rational anticipation," all enterprises, banks, and public finance have been out of control in an all-around way. They, therefore, called for changing the slack policies toward finance, banking, and income, and also called for carrying out a deflationary policy.<sup>74</sup>

By April 1985, when the growth of general demand "attracted the attention of the whole nation" and when various deflationary measures were being adopted, these comrades began to call the people's attention to the following points: "The aim of deflation is not the creation of a sagging economy" "due to lagging effect, the current deflationary measures will produce policy results in the second half of this year; and as "deflation itself requires focus and dynamics [li du 0500 1653], now is not the time to conduct full-scale deflation in an all-around way." They proposed that new prices be set for goods in short supply in the form of state participation, that the supply-and-demand structure be improved, and

that total output value index be replaced by gross national product. They pointed out that the functions of wage bonuses are different from the functions of compensatory payments. They also stressed that "the key to the restructuring of the wage system lies in the restructuring of the enterprise wage system."<sup>75</sup>

When the overheated economy was basically brought under control by the end of 1985, despite the fact that some people at that time still said loudly that "the tightening up of the money supply will not cause economic contraction," these comrades noted: "The current drop in general demand has reached a crucial moment." In view of the fact that there has been no fundamental change in the "long-standing 'windy'" phenomenon of "either having overheated conditions or having the extremely cold conditions characterized by a sharp drop in temperature in all channels," and due to the fact that the sharp fall in the foreign exchange balance has caused a voluntary tightening up of the money supply, they proposed that "a shift of the focus of readjustment be conducted cautiously," with the purpose of "enabling this economic contraction to avoid taking the old road characterized by U-shaped fluctuations but to get onto the track of stable growth." "Our past experience shows that due to the time lag between policy implementation and policy effect, when a cumulative recession has already emerged it will be too late to conduct structural micro readjustment, as the readjustment efficiency then will be relatively poor. At the same time, the magnifying signals of the cumulative recession will form the pressure for a general expansion during the next stage." A blind deflation that makes no distinction between deep valleys and high peaks will actually do a disservice to the promotion of macro control and stable growth.<sup>76</sup> The country's industrial production growth rate continued to fall after December 1985 and fell to 0.9 percent in February 1986, thus creating the pressure for an economic rebound. This kind of pressure is inevitable under the existing system. We can imagine that if the intensity of the then deflation had been slightly higher than what it was, economic recession could have continued for several months, and the pressure for a resurgence of economic inflation would become irresistible to those comrades of ours who have shown good intentions. Judging from the angle of avoiding still greater economic fluctuations, despite the fact that the anti-cycle policy on "soft landing" has not given ideal performances in two aspects, the policy has shown some progress as compared with the past.

### 3. The Influence of Simple Monetarism in China

Chinese economists have made differing assessments of the state of general demand. Such differences are very much connected with the propagation of monetarism in China. The problem is that some new monetarist developments, such as the analysis of expectations and the analysis of monetary management in an open economy, have not been publicized and applied in China. In fact, some old theories have been assumed as irrefutable

tenets and have also been applied everywhere. The following are two such old theories: 1) The "Rule of Thumb [mu zhi 2136 2172]" means that the ration between cash issue and commodity retail sales should be 1:8; 2) the theory on the ratio between currency (generally regarded as cash) and the economic growth rate means that the ratio is a fixed one and that currency and the economic growth rate are equal in value. According to a prevalent analysis, "in 1986 the increase in money supply (the growth rates of M, meaning money in the broad sense of the word, and M subscript 1, meaning cash, reached 19 percent and 23 percent, respectively) greatly exceeded the increase in national income (national income increased only 7.4 percent)."<sup>77</sup> Owing to this kind of influence, a few comrades have been delightedly talking about some economic anecdotes such as the "Ai Ha De [ai ha de 5337 0761 1795] Miracle," and the "Shenwu [shen wu 4377 2976] Prosperity," and have actually recommended that they should be treated as the main prescriptions for China's economic reform. It is their firm belief that "all major schools of thought in the field of modern economics regard general price fluctuations as a monetary phenomenon."<sup>78</sup> No wonder Professor Han Jun [3063 0193], member of the British Royal Society and a world-famous econometric expert, said with strong emotion: "I really could not have imagined that the most primitive monetarist dogma has been so popular in China. We proved a long time ago that even the modern monetarist theory cannot withstand a statistical test."<sup>79</sup>

Most people think that the modern monetarist theory faces three major outstanding questions. 1) Due to the development of modern financial techniques, the definition of money has become increasingly vague. It is very difficult to decide on a monetary concept that can be used as a relatively good tool for making economic analyses. 2) The question about the stability of the velocity of the circulation of money. It is impossible to gauge the exact velocity of the circulation of money that is needed by economy. Changes in the velocity are linked with changes in social and economic structures. Most people think that the velocity is determined by three factors; namely, real income, real interest rate, and the expectation of inflation. 3) The question over the identification of problems. As the velocity of the circulation of money cannot be gauged, there is no way to know the exact demand for money. In an open money market, the money supply is regarded as an indicator of demand. Due to the money supply's lagging reaction to demand and as there are always interferences in the money supply, there are always a considerable number of errors in the economists' estimates of the exact demand for money. Those theories which merely point out the long-term interrelationship between money and price but fail to clearly explain this interrelationship (is it stable or not? is it 1:1 or 1:3?) as well as the relation of the price level to other relevant factors, are, therefore, incapable of directly guiding the process of making macro economic policy decisions. This is an important reason for Western countries to gradually shift from relying on the

readjustment role of money supply to to relying on the readjustment roles of interest and exchange rates. For this reason, it is not difficult to realize that as China has hardly any money market and is also currently at a stage of rapid changes made through reform of the national economic structure, simple monetarist tenets in China will, therefore, show still greater limitations. For example, although 1981 is generally recognized as a year in which the best results of deflation were achieved, the money supply (hereafter called M subscript 1) in that very year seemed to be "completely out of control," with the annual growth rate reaching as high as 15 percent. This growth rate is 326 percent higher than that of the gross social product output value in the same year and is also 306 percent higher than that of national income in the same year, thus almost reaching the highest level achieved since the beginning of reform in 1979. In sharp contrast with 1981, the growth of general demand in 1984 does not seem to have produced an unacceptable money supply growth rate. The growth rate of money supply in 1984 is 214 percent higher than that of the gross social product output value in the same year and is also 233 percent higher than that of national income in the same year, thus reaching a level that is far lower than any of the 3 years during the 1979-1981 period. In addition, there was no apparent change in the two ratios in 1984 and 1986. However, some people noted: In 1985, a year in which "general demand continued to be greater than general supply," the money supply growth rate was only 54 percent higher than that of the gross social product output value and was only 72 percent higher than that of national income, thus achieving a level far lower than the average level achieved during the pre-reform period between 1952 and 1978. (Please see details in the following table.) After taking into account the time lag factors and examining the details on the basis of the time-series mean value, we have reached this conclusion: Despite the "sustained growth" of general demand during the 1984-1986 period, this period's average growth rate of money supply is not high: It is only 175 percent higher than that of national income in the same period. During the 1952-1978 period, the average money supply growth rate was 145 percent higher than that of national income; during the 1979-1983 period, a period even described by policy commentators as a period with "relatively coordinated economic development," the average growth rate of money supply was 260 percent higher than that of national income. Judging from these figures, we can see that the average level of the 1984-1986 period is slightly higher than that of the 1952-1978 period, but is far lower than that of the 1979-1983 period.

The following table compares money supply targets and national economic targets. (Abbreviations used in the table: MS equals money supply growth rate; EG equals economic growth rate; CME stands for comparison between money supply growth rate and economic growth rate; GVS for gross value of social products; and NI for national income.)

Comparison of Money Supply Index and National  
Economic Index

	Money Supply Growth Rate(%)		Economic Growth Rate(%)		Comparison of Money Supply and Economic Growth Rate	
	M	M <sub>1</sub>	GVS	NI	M <sub>1</sub> /GVS	M <sub>1</sub> /NI
1980	24.7	27.5	8.4	6.4	3.27	4.30
1981	21.2	15.0	4.6	4.9	3.26	3.06
1982	15.3	14.6	9.5	8.3	1.54	1.76
1983	18.7	14.7	10.3	9.8	1.43	1.50
1984	26.7	31.4	14.7	13.5	2.14	2.33
1985	18.3	8.9	16.5	12.3	0.54	0.72
1986	26.1	18.8	9.1	7.4	2.07	2.54
1952-1978	10.5	9.4	10.8	6.5	0.87	1.45
1979-1983	19.8	19.0	8.2	7.3	2.32	2.60
1984-1986	21.2	19.3	13.2	11.0	1.46	1.75

Annotations: M means total money supply (all bank savings plus cash); M subscript 1 means current purchasing power (M - national treasury - urban and rural savings deposits).

The figures in the table were calculated and collated by the authors of this article on the basis of information provided in an article by Wu Xiaoling (carried by JINGJI TIZHI GAIGE YANJIU BAOGAO No 7, 1987).

Thus it can be seen that the practice of using the ratio between the money supply growth rate and the national economic growth rate to gauge whether there is growth of general demand has caused so much serious misunderstanding and chaos in the fields of theoretical and practical work. By the standards of methodology, the practice of regarding the creation of a "relaxed environment" and the control of the money supply as priority tasks for the promotion of economic reform not only shows that its logic is apparently at fault but also shows that its premise is based on an unreal monetary dogma. (We should point out that the formulation "relaxed environment" does not belong to the language of economics. It is a slogan characterized by exaggeration. Squeezing this slogan into the field of economic research is at the least not showing a rigorous scientific approach, not to mention the failure to follow the rules of classification.) To truly carry out research on microeconomic theories in China, it seems that it is quite necessary to eliminate this hallucination, which still regards money as the external variable of economy.

**BRIEF SUMMARY:** Judging from the policy thinking on the 10-year reform in China, we can see that the reform has on the whole implemented the strategy for opening up, reinvigoration, and adroitly guiding action according to circumstances. It has primarily used "decontrol" to lash out at and disintegrate old systems as well as to cultivate new systems. This general line has brought about the expansion of rural reform, the promotion of price reform through a combination of decontrol and readjustment, all kinds of attempts to promote

enterprise reform, as well as the development of the management of general demand. During the initial stage of reform, we knew little about the whole picture and prospects of the reform. However, owing to this basic strategy characterized by powerful the opening up and practicality, we were able to seek knowledge and to accumulate forces, thus gradually expanding the forces and capacity for reform and opening up all possible roads for conducting reform. Looking back on the past 10 years, we can see that China took a road filled with twists and turns and finally managed to reach the most forward position of economic reform ever reached by any socialist country. Few people could have foreseen this.

Of course, China has made many mistakes in conducting the reform of its economic structure. With the exception of rural issues, we think that there are primarily three mistakes, which have greatly affected the current situation and which could have been avoided. 1. Following the implementation of the double-track system, we did not transform in a timely manner the old circulation organizations nor did we energetically establish competitive markets, thus aggravating the current difficult market problems. 2. We did not strictly distinguish between the compensatory wages for offsetting price increases and the bonuses that are aimed at stimulating the workers' enthusiasm, nor did we solve in a timely manner problems in unequal distribution and vicious development of group consumption, thus making it very difficult for us to resist the pressure for a jump in income. 3. We ignored the great readjustment role played by expectations in economic life. As a result, our policies have always been one step behind "countermeasures." In particular, we did not properly handle issues concerning price reform, thus creating serious anxieties among the people and seriously aggravating the environment of reform. However, these avoidable or unavoidable mistakes cannot cover our brilliant achievements in reform over the past 10 years. Therefore, while explaining the causes of today's confusion and sense of crisis, we must also seek deeper causes of such phenomena during our economic reform.

(The "Review" part ends here; the "Reflection and Prospect" part is to be published)

#### Footnotes

1. See Dong Fureng's article "On Questions Regarding the Forms of Socialist Ownership in China," carried by the first issue of JINGJI YANJIU in 1979.
2. See "Selected Works of Liu Guoguang," pp 261, 318, 320-321—published by the Shanxi People's Publishing House in 1986.
3. See the article "On the Orientation of Reforming the Chinese Price System and Other Related Modes and Methods," written by Lou Jiwei and Zhou Xiaochuan and published in JINGJI YANJIU No 10, 1984. This article exerted a great influence at that time. After publishing the article, the JINGJI YANJIU editorial department organized a meeting to discuss it. The discussion meeting was reported in JINGJI YANJIU No 11 of 1984. Although we do not agree with the article's point that theoretical prices should be used to regulate the price system, we think that the following two points made in the article showed keen insight: Under the then conditions in China, market prices could be chaotic; in conducting reform, we should consider rationalizing the disposition of resources.
4. See the article "On the Way for Conducting the Price Reform with Chinese Characteristics," written by Hua Sheng and He Jiacheng, and carried in JINGJI YANJIU No 2, 1985. Also see Zhang Weiyong's article "On the Thinking That Favors the Leading Role of Price Decentral During the Price Reform," carried in JINGJI YANJIU CANKAO ZILIAO No 6, 1985.
5. See the article "On the Orientation of Reforming the Chinese Price System and Other Related Modes and Methods," written by Lou Jiwei and Zhou Xiaochuan and carried in JINGJI YANJIU No 10, 1984.
6. See JINGJI YANJIU No 11, 1984, p 80.
7. See the article "Reflections on the Thinking Regarding Price Reform," published by JINGJI RIBAO on 29 September 1984.
8. See the article "A Comprehensive Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian, Zhou Xiaochuan, and Lou Jiwei and published in GAIGE No 1, 1988.
9. See the article "On the Way for Conducting the Price Reform With Chinese Characteristics," written by Hua Sheng and He Jiacheng and carried in JINGJI YANJIU No 2, 1985.
10. See the article "A Comprehensive Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian, Zhou Xiaochuan, and Lou Jiwei and published by GAIGE No 1, 1988.
11. See the book "Underdeveloped Economics," written by Ke Er Nai [4430 1422 1143], chapters 5-6, published by the Economic And Scientific Publishing House in 1986.
12. See the article "A Comprehensive Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian and others and published by GAIGE No 1, 1988.
13. See the article "Controlling Demand, Guiding the Clearing of Channels for Currency Circulation, and Conducting Price Reform," written by Wu Jinglian and Li Jiange and published by SHIJIE JINGJI DAOBAO on 30 May 1988. Incidentally, we would like to explain why we mention many viewpoints of Comrade Wu Jinglian in this part of this article. This is not owing to the fact that Comrade Wu Jinglian has criticized our viewpoints several dozen times since last year. The following is our reason: On various occasions at home and abroad over the past few years, Comrade Wu Jinglian has repeatedly discussed the major differences of opinion and debates among Chinese economists. Appearing as a member of the "group for comprehensive and coordinated reform," he has criticized all the comrades who have disagreed with him about his viewpoints. Under these circumstances, remaining silent will be detrimental to achieving a full understanding of some major theoretical and practical issues regarding our economic reform, and will also let our readers down.
14. See the article "A Comprehensive Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian and others and published by GAIGE No 1, 1988.
15. See Wu Jinglian's article "The Situation and Choices Facing the Reform of the Chinese Economic Structure," carried by GUANLI SHIJIE No 4, 1988.
16. See the article "On the Management of Currency and Price Reform—An Interview with Economist Wu Jinglian," carried by LIAOWANG No 29, 1988.
17. See the relevant report carried by SHIJIE JINGJI DAOBAO on 25 May 1987.
18. See the article "On the Management of Currency and Price Reform—An Interview With Economist Wu Jinglian," carried by LIAOWANG No 29, 1988.
19. See the article "On the Management of Currency and Price Reform—An Interview With Economist Wu Jinglian," carried by LIAOWANG No 29, 1988.



20. See the article "A Comprehensive Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian and others and carried in GAIGE No 1, 1988.
21. See the article "A Comprehensive Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian and others and carried by GAIGE No 1, 1988.
22. See the article "On the Way to Promote Price Reform with Chinese Characteristics," written by Hua Sheng and He Jiacheng and carried by JINGJI YANJIU No 2, 1985.
23. See Diao Xinshen's article "On the Functions of the Double-Track Price System and the Orientation of Further Promoting Reform," which is in the book "Reform: The Challenges and Choices We Are Faced With," published by the China Economic Publishing House in 1986.
24. See the article "On Changes in the Economic Operational Modes," written by Hua Sheng, He Jiacheng and others and carried by JINGJI YANJIU No 2, 1986.
25. The multi-track price system will inevitably exist as long as the state continues to try controlling prices in the absence of an absolute state monopoly of the market. The situation in Yugoslavia since the 1980's is a case in point. In his book "Yugoslav socialism," Harda Lydau said: With a complete decontrol, there will be price inflation; with a little control, a multi-track price system will emerge. However, some people think that the multi-track price system was touched off by a specific form of reform. For example, in his article published by RENMIN RIBAO on 11 February 1985, Comrade Wu Jinglian noted: Owing to the fact that China's reform advances gradually, there is a "two-tier system." "Under the 'two-tier system,' inevitably there will be a multilayered price system, which means having diverse prices for a single product. This multilayered system covers the prices of commodities, foreign exchange rates, and interest rates." When Comrade Wu Jinglian wrote this article, the double-track system had not yet been implemented. However, later he still attributed the existence of diverse prices for a single product to the double-track system.
26. The East European situation has proved this point. A combination of conducting price decontrol and demanding that enterprises fix their own prices in accordance with the state pricing system will inevitably lead to a situation in which price decontrol does not really work and inflationary pressure is ever increasing. Hungary has experienced a bitter lesson in this regard. This lesson was mentioned by Ke Er Nai [4430 1422 1143] in his article "The Hungarian Reform Process: Visions, Hopes, and Reality," published in December 1985 by the *Journal of Economic Literature*. If enterprises are allowed to fix their prices in accordance with the supply-and-demand situation in the absence of a concerted action taken through reforming the operational mechanism of enterprises, in other words, if enterprises are allowed to "arbitrarily raise prices" in the absence of such a concerted action, an unmanageable galloping inflation will inevitably emerge. The situation in Yugoslavia is a good example.
27. See the article "On Changes in the Economic Operational Modes," written by Hua Sheng, He Jiacheng and others and carried in JINGJI YANJIU No 2, 1986.
28. See the article "Reflection: The Market's Superficial Phenomena and Its Deeper Levels," written by Zhou Qiren and Dai Xiaojing and carried in ZHONGGUO: FAZHAN YU GAIGE, in May 1987.
29. See Zheng Hongqing's article "A Preliminary Study of the Development Period for Reform of the Economic Structure," carried by JINGJI YANJIU No 9, 1987.
30. See the article "On Changes in the Economic Operational Modes," written by Hua Sheng, He Jiacheng and others and carried by JINGJI YANJIU No 2, 1986.
31. See the article "A Historic Turn and Hopes," written by Hua Sheng and others and carried by JINGJI YANJIU No 3, 1987.
32. In their article "Controlling Demand, Guiding the Clearing of Channels for Currency Circulation, and Conducting Price Reform" published by SHIJIE JINGJI DAobao on 30 May 1988, Comrade Wu Jinglian and other comrades stressed: "The measure of 'managing currency and lifting controls on prices,' which was effective in practice in West Germany and Japan, is the one and only choice we have to achieve success." However, they have never mentioned things concerning the two countries' special status as occupied areas, their political and social histories, their systems of ownership, and the prerequisites for their market organizations. If these folks' prescription is as effective and simple as they have said, why is it that some East European countries declined to try it and why is it that some East European countries' illnesses deteriorated after trying it? These comrades have not given any explanations in this regard. In fact, this so-called experience gained by West Germany and Japan is just a distorted fairy tale; at best, it is a school of thought which emerged at a time when monetarism gained ground. Reference material in this regard can be found in a report written by a study group from the Chinese Institute for Research on Reform of the Economic Structure which visited West Germany. The group's report is entitled "West Germany's Price Stability in a Rapidly Growing Economy is Achieved Through Wage Restraint and Not Through Tightening Up Money Supply."
33. See Comrade Chen Yizi's answers to a reporter's questions, published by RENMIN RIBAO on 5 June 1988.

34. See Hua Sheng's article "A Talk on Reform After a Visit to Western Europe," published by SHIJIE JINGJI DAOBAO on 4 July 1988.

35. See the dialogue between a GONGREN RIBAO reporter and Hua Sheng published by GONGREN RIBAO on 25 July 1988.

36. See the article "On the Policy Choices Concerning Price Reform," written by He Jiacheng and others and published on 25 July 1988.

37. This point can be found in the article "On the restructuring of Microeconomic Foundations" carried in the third issue of JINGJI YANJIU in 1986.

38. See Wu Jinglian's article "On Issues Concerning the Development Policy and Macrocontrol at the Initial Stage of Our Economic Reform," published by RENMIN RIBAO on 11 February 1985.

39. Comrade Wu Jinglian has repeatedly said that he is "known" among Chinese economists as a member of "the group that advocates supportive measures for reform" or "the group that advocates coordinated reform." After this, he elevated the groups by renaming them "the group advocating integrated and coordinated reform." In his paper delivered to an annual U.S. economic meeting and carried by JINGJI YANJIU CANKAO ZILIAO on 12 June 1988, Comrade Wu Jinglian said: Since 1956 at least, in the field of "strategic choices" concerning China's reform of the economic structure, there has been a debate between two types of thinking. The first type of thinking, now known as the group advocating micromechanism, calls for adhering to the major orientation of "transferring power to the lower levels and allowing the lower levels to gain more profits." The second type of thinking, now known as the group advocating integrated and coordinated reform, calls for regarding market movement as the target. The pre-1979 history exceeds the scope of this article. However, we think that the following two practices are detrimental to the normal development of academic discussions: The practice of making appraisals and putting ideas into different categories and groups on the basis of subjective value; and the practice of pushing opposite views to an extreme; for example, the view that favors "following the old thinking" by simply "transferring power to the lower levels and allowing the lower levels to make more profits" as against the new that favors "properly regulate economic relations," and the view that favors promoting "primitive commodity economy" as against the view that favors promoting "modern commodity economy."

40. See Kornai's article "The Hungarian Reform Process: Visions, Hopes, and Reality," carried in the JOURNAL OF ECONOMIC LITERATURE in December 1985.

41. See the article "'The Road We Took Was A Dead End'—An Interview with Famous Hungarian Economist An Ta Er La Si Luo [1344 1044 1422 2139 2448 3157]," carried by JINGJI RIBAO on 1 August 1988.

42. See the article "On the Orientation of Reforming the Chinese Price System and Other Related Modes and Methods," written by Lou Jiwei and Zhou Xiaochuan and carried in JINGJI YANJIU No 10, 1984.

43. See the book *An Overall Plan for China's Economic Reform*, pp 17-18, published by the Zhanwang Publishing House in 1988.

44. In the article "On Changes in the Economic Operational Modes," we analyzed the contradictions shown by the idea about promoting a unified market in China as well as the idea about promoting regional markets. We then said: "To give full play to the superior role played by a unified Chinese market while taking into consideration the diversity of regional production conditions," one feasible method is to use land taxes or land rents to create proper regional differential costs. We also made a detailed analysis of measures for implementing this method. To our surprise, Comrade Wu Jinglian said that our article showed that we are "those economists who disapprove taking the road to promote a unified market." His points of view can be found in JINGJI YANJIU No 2, 1987. In fact, while stressing the advantages of a unified market, Comrade Wu Jinglian has been showing unwillingness [in taking the road himself to promote a unified market]. He has actually criticized other people's efforts to resolve the serious diversity of regional production conditions, which is the root of each locality doing things its own way. It is very difficult to understand his points of view.

45. See Wu Jinglian's article "Reflections on Choosing a Strategy for Reform," carried by JINGJI YANJIU No 2, 1987. We are aware that Comrade Wu Jinglian later turned his proposal for taking joint actions in the fields of prices, taxes, and finances into a proposal for conducting a great "synchronized supportive restructuring" in the fields of prices, taxes, finances, banking, and foreign trade.

46. See Wu Jinglian's article "The Key to Promoting Urban Reform Lies in Lifting Controls on Enterprises in the Fields of Production, Supply, and Marketing of Products," carried by SHIJIE JINGJI DAOBAO on 24 September 1984.

47. See Jiang Yiwei's article "The Theory of an Enterprise-Based Economy," carried by ZHONGGUO SHEHUI KEXUE No 1, 1980.

48. The proposal for levying the product tax was originally put forward by Comrade He Zhenyi—see the article "A Talk On Product Tax," carried by HONGQI No 7, 1984.

49. See Hua Sheng's article "On The Distribution Relations Between the State and the Enterprise," Which is part of the book *Selections From Theses Written by Candidates for Doctoral and Master's Degrees in 1985*, published by the Jingji Ribao Publishing House in 1986.
50. See the article "On the Restructuring of Microeconomic Foundations," written by Hua Sheng, He Jiacheng and others and carried by JINGJI YANJIU No 3, 1986
51. See Zhang Shaojie's article "The Separation of Profit and Tax: A Starting Point for Conducting Assets Reform," carried in FAZHAN YU GAIGE No 9, 1987. We would here like to point out that some comrades are still criticizing the practice of "fixing a special rate for each of our enterprises" and the practice of pursuing some kind of "standardization." Their points of view are in Comrade Wu Jinglian's article carried in GUANLI SHIJIE No 4, 1988. However, these comrades have apparently failed to see that due to the state's capacity as the owner of the means of production, there is no way to have unified and standardized distribution relations between the state and the state enterprises. The form of this question about such relations is itself a pitfall.
52. See Wu Jinglian's article "The Situation and Choices Facing the Reform of the Chinese Economic Structure," carried by GUANLI SHIJIE No 4, 1988.
53. See *The Main Report on China: Issues and Plan Concerning Long-Term Development*, written by an observation group from the World Bank in 1984 and published by the Chinese Financial and Economic Publishing House in 1985, p 13.
54. See the article "The Stock System: An Idea About Further Promoting Reform," written by Wu Jiaxiang and Jin Lizuo; the article is part of the book *China: Development and Reform from 1984 to 1985—Volume One*, published by the Chinese Communist Party Historical Data Publishing House in 1987.
55. See the article "An Exploratory Discussion on the Strategy for Conducting Banking Reform," written by graduate students of the banking institute and carried by JINRONG YANJIU No 8, 1984
56. See the article "On the Restructuring of Microeconomic Foundations," written by Hua Sheng, He Jiacheng, and others and carried by JINGJI YANJIU No 3, 1986.
57. See the article "Reform: On the Challenges and Choices We Are Faced With," written by the group for comprehensive study of issues under the Chinese Institute of Economic Structural Reform and published by JINGJI YANJIU No 11, 1985.
58. See two articles written Comrade Li Yining—one was carried by BEIJING RIBAO on 19 May 1986 and the other was carried by SHIJIE JINGJI DAOBAO on 8 November 1986.
59. These points can be found in Comrade Wu Jinglian's article "Reflections on Choosing the Strategy for Reform," carried by JINGJI YANJIU No 2, 1987.
60. See the article "The Key to Successful Promotion of Urban Reform Lies in Fundamentally Transforming the Enterprise System," written by Hua Sheng, He Jiacheng and others and carried by JINGJI RIBAO, 12 July, 1986.
61. See Tang Zongkun's article "Reflections on Choosing Targets of Reform of the Ownership System," carried by JINGJI XUE DONGTAI No 1, 1986; also see the article "On Restructuring the Microeconomic Foundations," written by Hua Sheng, He Jiacheng, and others and carried by JINGJI YANJIU No 3, 1986.
62. See the article "The Bridge Integrating Public Ownership With the Commodity Economy," written by Hua Sheng, He Jiacheng, and others and carried by JINGJI XUE DONGTAI No 1, 1986. Also see "The Draft Plan for Trial Implementation of the Assets Management Responsibility System," carried by JINGJIXUE DONGTAI No 1, 1987. Note: During discussions on enterprise reform in China, Comrade He Jiacheng put forward the following proposal: An institutionalized system of inviting tenders that leaves no loopholes for anyone to exploit should be used to smash the existing powerful noneconomic restraints in Chinese enterprises. It should also be used as a method to assess enterprise assets.
63. See Xue Muqiao's article "Readjust the National Economy, Promote a Comprehensive Balance," carried by JINGJI YANJIU No 2, 1981; also see Gui Shiyong's article "On the Characteristics and Significance of the Further Promotion of Readjustment," carried by JINGJI YANJIU No 4, 1981.
64. See Huang Jiangnan's article "A Preliminary Exploration of the Demand-Exceeds-Supply Trend in china over the past 30 years," which is part of the book *A Mediation on History*, published by the Sanlian Book Store in 1980.
65. See the article "Reform of the Economic Structure and Macroeconomic Management," written by Liu Guoguang and others and carried by JINGJI YANJIU No 12, 1985.
66. See Wu Jinglian's article "Reflections on Choosing the Strategy for Reform," carried by JINGJI YANJIU No 2, 1987.
67. See the article "An Overall Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian and others and carried by GAIGE No 1, 1988.

68. See the article "on the Changes in the Focus of the Inflation of General Demand and Macro Control," Written by zhang Xuejun and others and carried by JINGJI-XUE ZHOUBAO on 19 may 1985.

69. See the article "On the Limitation of Macroanalysis and Macro Policy in the Fields of Economic Theory and practice in China," written by Deng Yingtao and Luo Xiaopeng and carried by JINGJI YANJIU No 6, 1987.

70. See the article "An Overall Plan for Promoting Reform of the Economic Structure," written by Wu Jinglian and others and carried by GAIGE No 1, 1988.

71. See the relevant front-page report carried by REN-MIN RIBAO on 19 August 1988.

72. See the report "the Road We Took Is a Dead End—A Interview With Noted Hungarian Economist An Ta Er La Si Luo [an ta er la si luo 1344 1044 1422 2139 2448 3157]," carried by JINGJI RIBAO, 1 August 1988.

73. See the Article "Reflections on Reform of the Chinese Economic Structure, Choices Available for the Reform," written by Wu Jinglian and others and carried by ZHONGGUO: FAZHAN YU GAIGEI, September Issue, 1987; also see Wu Jinglian's Article "On Divergent Views on Macroeconomic Issues," carried by JINGJI YANJIU No 11, 1987.

74. See the article "On A Pivotal Change in the Growth of General Demand," written by He Jiacheng and others, as well as the article "On the Countermeasures for Resolving the Current Growth of Consumption Funds," written by the group for studying national economic issues under the Department of Economics of Fudan University. Both articles were carried in the book *An Exploration of the Epoch of Reforms*, published by the Tianjin People's Publishing House in 1985.

75. See the article "Strengthening Macro Control Is Not Tantamount to Comprehensive Deflation," written by Zhang Xuejun and others and carried by SHIJIE JINGJI DAOBAO on 8 April 1985.

76. See the article "It Is Imperative To Guard Against an Excessively Sharp Fall in Deceleration Rate During the Process of Deflation," written by Zhang Xuejun and others and carried by SHIJIE JINGJI DAOBAO, 6 January 1986. Also see the article "On Several Theoretical Issues Concerning Macro Balance and Macro Control," written by Song Guoqing and Zhang Weiying and carried in JINGJI YANJIU No 6, 1986.

77. See Wu Jinglian's article "On the Divergent Views on Macro Economic Issues," carried by JINGJI YANJIU No 11, 1987; also see the foreword to the book *An Overall Plan for China's Economic reform*, published by the Zhanwang Publishing House in 1988.

78. See Wu Jinglian's article "On the Divergent Views on Macroeconomic Issues," carried by JINGJI YANJIU No 11, 1987; also see the foreword to the book *An Overall Plan for China's Economic Reform*, published by the Zhanwang Publishing House in 1988.

79. See "Professor Han Jun's Talks with Chinese Economists," collated by Qin Duo.

**Journal on Government Role in Economy**  
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[Article by Zeng Qiang 2582 1730 and Liu Jingping 0491 0079 1627 of the State Economic Information Center, draft revised in August 1988: "The Position and Influence of the Government in the Chinese Economy"]

[Text] Through an examination of the 10 years of reform, it is possible to discover a strange phenomenon: In the early stages or in experimental units, reform measures see speedy results, but following the spreading of the reform measures and the passage of time, their positive role gradually decreases and their negative effects become gradually more obvious. The reform achievements thus swiftly become the targets for further reform. Why does an ideal policy get skewed when applied in the society? What force is it, what means are used, and what roles are played which result in this dramatic situation continually occurring in China?

### 1. The Government—The Center of China's Economic Movement

Reality awakens people to the necessity of freeing our gaze from complex short-term problems and instead analyzing China's present in terms of its historical inertia and future development, and understanding present-day China in terms of a changing and readjusting international environment. Through an enquiry into the process of China's economic development in the 40 years since the founding of the PRC, we have discovered a common phenomenon: All the major theoretical breakthroughs and initial programs in macroeconomic policy-making originated with the (central) government, while all the arenas where the policies were implemented were outside of the government. But the power to control the macroeconomic situation was also in the hands of the government. Put another way, the principal body in the sparking of the Chinese economy is the central government, while the principal body in applying the brakes to the economy is also the central government. After the Chinese economy has been sparked and before it has been braked, it experiences "incomplete" economic movement which is under administrative restriction. Following this thread, we must accept this fact: The past, present and future of the Chinese economy determines that the government occupies the central position in the Chinese economy.



That which is referred to as the "government center" includes the following meanings: 1. Seen in terms of history since the founding of the PRC, in order to consolidate a political regime which had just been established and in which the CPC held power and to swiftly complete the building of an industrialized system, our country implemented a highly-administered system of economic movement, and the government occupied the central position in terms of production factors such as personnel, finances, materials, and organs, and in terms of the management structure. The present Chinese economy cannot forget this and is unable to completely break free from this historical inertia. 2. The delineation of the relationship between the government and the Chinese economy is a central link which influences the deepening of economic reform and breakthroughs in political reform. 3. In the process by which, through reform and opening up, the Chinese economy is moving towards the world, the special position of the government plays a very important role in economic development.

In studying the reasons why the government has entered the Chinese economy, we must not overlook the two factors of the copying of classical theories and centralized political rule in feudal history.

Marxism holds that following the socialization of the productive forces, the means of production should also be socialized. That is, the means of production must be owned by the whole society. If this is not so, it will produce two major crises, one in the economy and one in the society. Thus, the theoretical path put forward by Marx to resolve the two crises was that the means of production should be put under the ownership of the whole society and a planned economy should be used to regulate the ratio between the two major categories. Further, it was necessary to institute distribution according to work to limit the disparities between the rich and the poor. The public ownership of the means of production provides a theoretical basis on which the government can participate in and control the economy. The economic model which has been arrived at following changes in the above-mentioned classical theory is the planned economy model with the government at the center.

The strong and effective system of rule by imperial power was a pyramid-shaped system of imperial management which extended through the whole country. Every middle-level ruler on the one hand followed any orders which came from above and on the other hand issued instructions to his subordinates. This pyramid-shaped form of rule was the nerve network which stimulated the activities of Chinese society. China's feudal history provides a basis, in at least three respects for the present Chinese economy to become an appendage of the government: First, the feudal consciousness of the Chinese masses has accustomed them to administrative management; second, government leaders have experience in effectively managing society; third, Chinese society is used to a huge and super-stable structure maintaining the stability of a huge China.

After the founding of the PRC, under calls for "independence with the initiative in our own hands, and self-reliance," Chinese society severed the road of opening to the outside world and to becoming an integral part of the world economy. With this historical background, the history of the economic development of China became a history of the development of the government economy. Thus, we can say that research into the Chinese economy which excludes analysis of the government is futile research and reform which does not shake up the government is futile reform.

Although widely-acknowledged achievements have been realized in economic development in the 40 years since the founding of the country, these achievements far from match the the arduous efforts made by the people. Ascribing the cause of this to mistakes by the policy-makers, to the low quality of economic managers and to the fact that planning and policies were not scientific, not only is theoretically naive, but may also in practice side-track the reform. In fact, all of these are not special cases at particular times or partial phenomena at specific places, but rather unavoidable aspects of the process by which the government regulates and controls the economy.

## 2. The Deep Structure of the Chinese Economy

Economic movement which is regulated and controlled by the government has the following characteristics:

### 1. Existence and development

The activity targets of all socioeconomic organizations can be divided into two levels: The first is existence and the second is development. The government is the highest form of social organization and it has the execution of a particular social function as its base. The primary task of a government is the maintenance of the existence of the society and only on this basis can it promote social development. In the Chinese economy, the government has become an aggregate entity with both social functions and economic functions. Through the various levels of administrative organs, it carries out its socioeconomic functions. These administrative organs also in fact become representatives of the common interests of the personnel under them. Thus, the existence of the government is divided to become the existence of the administrative organs at the various levels. This determines that when these various levels of administrative organs engage in economic policy-making, their point of departure is not the seeking of the greatest economic benefit. Rather, proceeding from the maintenance of their social existence within the sphere of their regulation and control, they seek the greatest social benefit. The problem lies not only in this. When the various administrative organs are forced by the hard restraints of the environment into a tight operating situation, that is one where if they do not develop they will cease to exist, these organs will to some degree seek economic benefits.

However, as economic benefits naturally require economic competition, with the superior winning and the inferior being eliminated, the process of seeking economic benefits cannot but harm the interests of those administrative organs which have poor economic results, and even threaten their existence. Thus, when economic benefits and social benefits clash and a choice has to be made by the administrative organ, the administrative organ will undoubtedly choose the latter.

## 2. Resource deployment

In the Chinese economy, the government as the owner of state assets, receives profits from its subordinate economic units, and as an administrative manager it levies taxes on all economic units. At the same time, the government not only has the power, through the central bank, to control the issue of money, but also owns the other commercial banks.

This three-in-one status determines that the government is able to the greatest degree, to mobilize the economic resources of the whole society in engaging in economic construction. It is also precisely this format which determines that the government cannot utilize to the greatest degree the economic resources so mobilized.

The outstanding characteristic of state assets is the abstract nature of asset ownership rights. That is to say, assets lack a clear personified representative. Seen on the surface, assets are owned by the governments at various levels. But in fact, as no-one can truly represent the governments, the relationship between the government leaders and government-owned assets tends to be weakened. In actual economic life, it is very difficult for government leaders to concern themselves with the operational results of state assets in the same way as owners concern themselves with private assets. This thus results in state assets losing the innate restrictions imposed by economic benefits.

Seen from a different angle, competition between operators under the same owner cannot but be subject to controls imposed by the owner, and also the power and number of assets in the national economy which are not state-owned is too small. This lack of competition results in the state-owned assets losing, in an overall way, the external stimulation to better economic results.

Government taxation revenue is uncompensated income. The uncompensated nature of this income means that the government can arbitrarily increase the amount it levies. Also government control of the banks means that the government does not have to strictly maintain financial expenditure levels within the limits of financial revenue and the government can, in accordance with expenditure needs, put more money into the market.

Although the absolute superiority of the state-owned economy, the uncompensated nature of taxation revenue and the arbitrary issue of money ensure that the government has the most solid and dependable economic resources, to a very great degree these factors remove the economic benefit restraints the government should have in participating in economic activities, and means that it can, without misgivings, engage in activities with poor results. If the government's scale of operation was limited to public undertakings in society, the contradiction would not be so obvious. However, when the government collects huge resources, uses financial means to manage the national economy and the whole banking system becomes a financial receiver and payer, poor results in economic activities are difficult to avoid.

## 3. Administrative orders

Between all levels of administrative organs and economic units, there exists a general interconnection which goes beyond goods and money—this is the administrative order.

The transmission of administrative orders is done from above to below and the implementation networks for orders from different administrative organs are not related to one another. The most important point is that the economic units which implement the orders are always in a passive position and they are unable to independently handle the various matters which affect them. The jurisdiction, exclusiveness and compulsory nature of administrative orders centrally manifest the nature of the Chinese economy.

Economic movement which is prompted by administrative orders cannot help but stifle the vigor of the micro-economy and stifle the capacity of the whole society for self-organization. Although the various administrative organs have the intention of improving economic results, as the goals do not come from the microeconomy itself, the movement thus does not have innate vigor. Added to this are the partitions caused by jurisdiction relationships, which mean that the range to which the results spread is very small. Thus, it is very difficult to improve economic results. At the same time, as the policy-making process lacks a restraining mechanism, all policies, correct or mistaken, will be implemented. This thus results in the excellence or poor quality of economic results being, to a great degree, determined by the correctness or otherwise of policy-making.

In brief, the basic phenomenon of the Chinese economy is that the effective deployment of resources and low-effective use of resources coexist. The deep structure controlling this phenomenon is a dual structure formed by the administrative network by which the economy is organized and in which the standard is power, and the market forces by which the economy is regulated and in which money is the standard.

The price parity restoration [bi jia fu gui 3024 0116 1788 2981] which has occurred subsequent to the price readjustments, the many directional changes which have occurred in enterprise reforms, the spate of merchant-officials and the unfair distribution of social wealth which have appeared since the reforms began are all the results of clashes and changes between power and money. Many of the swerves experienced subsequent to the implementation of policies have also been due to the fact that in our policies and planning, the research into the deep structure of the economy was not thorough and the influences of non-economic factors on the economy have been neglected.

### 3. Economic Movement Under Government Regulation and Control

Economic movement under government regulation and control is very different to economic movement under regulation by market mechanism. We can see this clearly from the following three processes:

1. Seen from the policy-making process: The highest policy-making circle within the government makes the basic strategic decisions in a secret but legitimate way and then swiftly transmits these through the administrative network by compulsory measures to the various areas of the economy. Thus, the organism of economic movement is set in motion by the implementation of the above-mentioned decisions.
2. Seen from the process of movement. The ownership of the means of production is in the hands of the government at various levels, the power to appoint people is in the hands of the central government, and the state enterprises which occupy a very large proportion of the national economy and basically determine the nature of the Chinese economy have long existed and developed under government protection.
3. Seen from the process of emergency braking: The government relies on a huge, efficient administrative network to swiftly and forcefully put on the brakes when there is an emergency in the macroeconomy. This often produces major shocks in the economy. The synchronization of the fluctuations in the the Chinese economy and the braking policies of the government reflects the inevitable result of government control of the economy. In the process of changing to a market mechanism, it is not possible to swiftly and effectively push the money standard to a major position in the Chinese economy. Also, before the macroeconomic regulation and control system is complete, while the new delineation of interests which the reforms demand is still subject to the the resistance of traditional forces and while the macroeconomic form still has many unpredictable factors and society demands a stable environment, the administrative means which use power as a mace by which to restrain the economy will continue to exist in the Chinese economy for quite a time.

The situation whereby in the process of Chinese economic movement there is a "government center" and the situation seen in Western market economies whereby the government only plays a role of referee and the builder of public facilities are completely different. This determines that the theories which guide Chinese economic movement cannot copy Western theories.

Examining the Chinese economy from another angle, we discover that it is the model of an expanding economy. The achievement consciousness of officials, the employment pressure brought by the population explosion and the demonstrative effect produced by the economic strength of the developed countries together produce the inducement for expansion. The high-efficiency resource mobilization measures the government has (high accumulation, high deficits, high money issue) results in the government being able to mobilize resources on a larger scale resulting in a tide of expansion. However, the Chinese government is not faced with any balancing mechanism. That is to say, the policy-making stage is not restricted and after measures are implemented, it takes no responsibility. This results in the government's expansion impulse being unimpeded and not having to worry about the past. The combination of a great desire for expansion, a strong ability to mobilize resources and poor restraint mechanisms means that the expansion of the Chinese economy cannot be resisted.

The resources which are mobilized in a highly efficient way cannot, with the restrictions of the deep structure, be utilized in a highly effective way, and this results in serious social crises. This forces the government to abandon its expansion and carry out economic readjustment in order to guarantee the continued existence of society. The three economic expansions in 1958, 1978 and 1984 together with the readjustments they forced, completely conform with the above deductions.

The fluctuations in the Chinese economy involving expansion, readjustment, further expansion and further readjustment are closely and inseparably linked with the position and influence of the government in the economy.

### 4. Thoroughly Understanding the Ten Years of Reform

The ten years of reform did not engage in surgery on the controller of economic movement—the government. Many major reform measures have failed to shake up the tight administrative relationship between the government and the various links of the economy, and have only expanded the space in which the economic units at various levels can operate. China has already travelled this road for 10 years. Although these measures have used commodity economy blood in a transfusion to save the Chinese microeconomy, the vigor of which was being stifled, because they have not touched on the deep structure of the Chinese economy—the power network by which the government intervenes in the economy—the development of the Chinese market economy has

been restricted and the period and fronts over which the old and the new systems confront each other have been extended. 1. The rural contract responsibility system is a product, in a period subsequent to the government clearly setting down that the dual structure whereby agriculture and industry coexist is still a product of the present level of China's productive forces, of the administrative policy of the unified purchase and marketing of agricultural and sideline products being withdrawn and being replaced by a system whereby the supply-demand relationship for agricultural and sideline products is regulated through pricing patterns. The successive years of bumper harvests in the period before the reform was a signal of successes of partial reforms in the rural areas. However, the fluctuations in pig and grain production in recent years is an inevitable result of changes in government macroeconomic policies not being thought out in a synchronized way before the rural reforms. 2. The enterprise reforms range from retention of profits, profit contracts and the replacement of profit delivery by the levying of taxes to contracted operation responsibility systems. All of these are results of the withdrawal of the power to allocate financial resources and the power to issue directives to enterprises, as well as the pushing of enterprises into the market, which have occurred subsequent to the government making clear that the right of ownership (which belongs to the government) and the right of operation (which belongs to the enterprise) can be separated. However, the urban reforms have not been nearly as smooth as the rural reforms, and even though some partial, short-term victories have been achieved, they have often been at the expense of future benefits. The reason this is so is that enterprise reform in which the property rights relationship and personnel rights relationship between the government and enterprises does not change, can at best only be external decorating work while the columns and roof beams of the structure remain in place. Seen from this angle, before the time when enterprise groups become an independent force influencing the Chinese economy, the "theory of the enterprise as the standard" should not be a theoretical basis for urban reforms. 3. The issuing of wage bonuses is the result, subsequent to the government making clear that the pursuit of material interests is a basic demand of people at the present stage, of the withdrawal of the right to control total wage volumes and the switch to reliance on distribution according to work, in order to stimulate the enthusiasm of the production laborers. However, distribution according to work in the true sense has not been developed in the whole society. For example, the complex labor of intellectuals and state cadres is not duly rewarded, while the "speculators" in the circulation spheres and the "powerful officials" who use their monopoly power to recklessly raise prices, can sit by and reap the benefits. This unfairness on the income distribution level not only affects the enthusiasm of this generation but will also have unfortunate consequences for China in the future. There are two factors which result in this unfairness: Firstly, the problem of how the government is to regulate the income of non-government

personnel has not yet been resolved. Secondly, the problem of how the government is to distribute government officials' income is still to be resolved. 4. The emergence of the dual pricing system and the pricing readjustment which followed was a result, subsequent to the government making clear that the planned and commodity did not exclude each other, of the abandoning of price management power and the use of the money standard to replace the planning standard. However, up till now, pricing signals have not provided accurate information on the supply-demand relationships or the regulated deployment of resources. This is because the relationship of coexistence between regulation by power and regulation by money has not yet been coordinated and the pricing relationship between major products within industries has not yet been put in order.

From the above discussion, we have come to the following important conclusions: The deep structure of the Chinese economy is a dual structure formed from both non-economic factors and economic factors; prices, wages, labor activities, banking, financial administration, product structure, and such economic matters are but external manifestations of the two forces of power and money, in which there is an inverse relationship between the two; in the fixing of economic reform policies, it is necessary to consider both non-economic policies and economic policies. The reason why development of enterprise contracts and pricing and wage reforms is slow and few results are being seen, is that there has been no implementation of non-economic policies, coordinated with the changes in government function.

If we look at the three processes of policy-making, implementation and braking in the major economic programs initiated in the last 40 years, we find a vicious triangular cycle:

1. The policy-making process takes place within the government. If the policy-making overlooks the restrictions of non-economic factors, there is a possibility that it will result in the policy goals not being in the realm of reality.
2. The implementation process occurs outside the government. When a policy goal which is envisaged is subject to the dual economic and non-economic restrictions of reality, it is possible that it will result in the government's goal miscarrying.
3. The braking mechanism also occurs within the government. When a government goal fails, in order to guarantee that society does not fall into disorder, the government initiates intervention policies.
4. Return to the process noted in 1. above.

In a diagram form, this can be represented by the following "Bermuda Triangle":



Policies which are impossible to implement—Failure in implementation—Administrative braking—Policies which are impossible to implement—Failure in implementation ... and so on.

If the Chinese reforms fail to take the mediating of the clash between power and money as an important thread in the formulation of macroeconomic policies, 10 or 20 years in the future, two types of crisis will occur in China:

On the one hand, purely economic decision-making will be unable to effectively control the macroeconomic situation and it will not be possible to seek emergency remedies for pressing and thorny economic problems purely in economic theory. China's opening up will also exacerbate the effects of international market upheaval on the domestic situation and will produce an economic crisis.

In another respect, wealth will accumulate in the hands of these people who engage in simple labor and who get much income for little work, while poverty will appear among those who engage in mental labor and complex labor. This will produce a social crisis.

The grim situation calls for a completely new reform strategy.

##### **5. "Openness, Separation, Interflow, Restriction"—Seeking a New Juncture From Which Reform and Development Can Take Off**

Since the reforms began, we have all along tried to bypass the price and wage issues and use the partial reform of economic relationships to gradually bring about a change to a new commodity economy order. However, the integral nature of the economy requires that the reforms be coordinated and that the key links are shaken up at the opportune moment. This is because in a change from one system to another, it is necessary to use the new organization of the incoming system to destroy the out-dated organization of the old system. However, this is a process of redistribution of interests. It means that the use of power to divide and set down economic interest relationships will be replaced by the use of money to regulate economic interests relationships. The reason prices and wages are the point of difficulty in the reforms is that they are the place where power and money clash. The readjustment of prices and changes in wages will both be opposed by those who benefit from the existing situation and promoted by those who demand more benefits. The wage and price reforms in China are major campaigns in which power and money cross swords, and victory or defeat will influence China's future economic structure. However, the worrying thing is that the present price and wage reforms seem to be carried out with the desire to bypass the political structure, which has power as its center. This method of avoiding the operating force behind the

prices and wages—power—seems to be a "Chinese complex" which has been formed over several thousand years and which no one dares to address.

The avoidance of addressing the control of the economy by power and instead hoping to use purely economic means to get the economy to take off, is a basic cause of the occurrence in the last few years of reform of situations whereby "reform achievements rapidly become targets for reform." Thus, if we are to enliven the economy, we must stop using a purely enterprise-oriented reform program and combine this with thoroughgoing reforms of government functions, that is reforms which shake up the administrative power networks. The principles of reform should be "openness, separation, interflow, and restriction."

What is meant by "openness" is that, at the same time as the targets which we want our reforms to achieve are openly promulgated, we should also publicly make known what we will have to pay for the reforms. This will include the price some units and individuals who have long enjoyed vested interests will have to pay in order that resources can be brought into play more effectively. Also, all of the government's "hidden subsidies" will become "open subsidies" so that encouragement policies and policies of a penalty nature are open for all to see.

What is meant by "separation" is that at the same time as the relationships between the government and enterprises, the government and the party, the government and individuals, the government and villages, the government and the market, and the government and the international environment are clearly delineated, those government influences which affect the bringing into play of economic efficiency will be isolated and the harm they bring to economic self-organization will be thus stopped.

What is meant by "interflow" is that the various production factors (including labor, funds, technology, management, organs, and information) will all flow in their own competitive markets. To this end, it is necessary to open labor markets, establish social relief systems, open funds markets, promote auctions and markets, promote technology markets, organize trans-national companies, train outstanding managers, perfect the organizational system, and strengthen social information.

What is meant by "restriction" can be seen on two levels: The first is that at the same time as the former, vertical jurisdiction relationships of economic units are broken down, new lateral restricting relationships will be established. The second is that, within the government, power will be used to restrict power. In today's China, there is not yet a force which can fully contend with power. However, if the Chinese economy is to prosper, it is necessary to get power to withdraw from the economy.

The only way to achieve this is self-change in government functions, to free the government from its multi-role function as producer, distributor, consumer, mediator, braker, and policy-maker, and to channel the main current of government power into opposing monopolies, opposing corruption, guaranteeing social order, and formulating regulations for equal competition in the market. In this way, government power will swiftly promote the formation of a market in which production factors are able to flow.

The targets of reform are complex organisms brimming with linkages, and reform itself is a formidable and painstaking systematic project. Thus, our reform plans must be completely coordinated plans. Reforms thus based will indeed inject new vigor into the economy.

In brief, openly stating our stand, separating out those irrational factors which obstruct the raising of economic efficiency, using power to restrict power, and thereby producing a situation where all the production factors flow will indeed result in basic changes occurring in China's political, economic, cultural and social structures. This will also be the new juncture from which China's reform and development can take off.

## PROVINCIAL

### **Qinghai Faces 'Unprecedented' Power Shortage** *HK2011014788 Xining Qinghai Provincial Service in Mandarin 2300 GMT 19 Nov 88*

[Excerpt] The entire northwest power grid region is facing a serious power shortage this winter and next spring. The power shortage in Qinghai will be unprecedented. Planned and economical power consumption has become an overriding task for the province's power consumers.

The volume of water in the upper Huang He is the lowest since 1943. As a result the water in the Longyangxia reservoir is below the planned level, and this affects normal power generation. From November to next April, the average power shortfall for Qinghai consumers will be 40 percent.

To ensure the maximum power supply and ease the power shortage as far as possible, the provincial power industry bureau has decided that apart from improving equipment management in the thermal power plants and striving to generate more power there, it is necessary to further strengthen measures for planned and economical power consumption. Major consumers must strictly follow the consumption targets set by the power departments. The province will persistently follow the principle of ensuring the key points and arranging priorities. Power supplies will be limited or stopped for factories producing goods in ample supply that are not selling well. Non-productive power for large non-productive buildings will be strictly controlled. The annual overhauls of equipment in non-ferrous metal, metallurgical,

and chemical industry plants should be discussed with the local power supply departments, and should as far as possible be timed for the low-water period during the winter and spring. [passage omitted]

## INDUSTRY

### **Reform Program Launched for Power Industry** *OW2011170988 Beijing Domestic Service in Mandarin 2230 GMT 12 Nov 88*

[From the "News and Press Review" program]

[Text] Approved by the State Council, a program has been launched for reforming the management system of the power industry in our country. The guiding principle for this reform program is to separate government administration from enterprise management, take provinces as individual entities, form joint power grids, distribute the power supply according to a unified plan, and raise funds for building new power projects. The central purpose of this reform program is to establish a management system suited to construction of power projects with raised funds and by numerous units.

A pertinent person of the Ministry of Energy Resources told this reporter that the greatest change resulting from the reform will be the connection of existing power grids in various provinces to form joint power grids, each covering several provinces, autonomous regions, and municipalities. The present power industry bureaus of various provinces will be changed into power industry corporations, and power grid bureaus will be reorganized into joint power industry corporations. All these corporations will become economic entities with independent accounting systems, each responsible for its own profits and losses. The purpose is to increase our power enterprises' capabilities to accumulate funds and make progress by themselves, thereby opening a new way to develop China's power industry through multilayered efforts with funds raised by diverse channels.

After the reform, various contracted managerial responsibility systems will be implemented in the newly established provincial power industry corporations and the joint power industry corporations. Moreover, enterprises will be encouraged to establish their own power plants. Power plants supplying electricity during the peak-load period may collect a higher charge for the electricity they provide to the power grid. In principle, the charge of electricity supplied to the power grid by hydroelectric power stations may be somewhat lower during the high-water season.

The reformed joint power grids must adhere to the unified plan and strengthen management in distributing power supply to various localities. In doing this, all units concerned must strictly abide by work discipline. If an accident occurs in the power grid due to noncompliance

with the power distribution instruction, the individual concerned and the responsible person of his unit will be investigated to determine their administrative and legal liabilities.

It is learned that the reform of the power grid management system will be carried out on a trial basis this year for the East China Power Grid. The reform will be gradually popularized to all localities, beginning next year. The work of establishing joint power industry corporations and provincial power industry corporations will be completed by the end of June 1990.

## CONSTRUCTION

### Over Six Million Families on Housing Waiting List

OW2111002388 Beijing XINHUA in English  
0702 GMT 18 Nov 88

[Text] Beijing, November 18 (XINHUA)—Over six million families are on the house waiting list or living in "squalid" conditions, a Ministry of Construction official said here today.

Pan Qiyuan, chief of the Housing and Real Estate Department under the ministry, said the per capita living space for the urban residents, over 40 percent of China's one billion-odd population, averages 6.1 square meters, including 650,000 households crowded in shelters offering less than 2 square meters per capita.

The figure stood at 3.6 10 years ago, when the urban population was 17.9 percent of the country's total of 962 million, he said.

Over the last 9 years, he said, China has built residential apartments in urban areas totaling 1.1 billion square meters, including 132 million square meters built last year.

The ministry has planned that by the year 2000, the living space per capita for China's estimated population then of 1.27 billion would be 8 square meters—civilised conditions by the accepted international standards.

But Pan was not optimistic about the plan because 363 million people who were born during the 1962-1975 period will be at marriage and child-bearing age during the next 12 years.

Schemes are being worked out in different cities and provinces. In Shanghai, China's key industrial metropolis, for example, apartments are built with 70 percent of funds from the dwellers' units, 20 percent from the municipal government, and 10 percent from the residents themselves.

The scheme has enabled over 15,000 households to move into new houses.

These households used to have an average living space below 2 square meters per person—most with five to six members and some with even a dozen members in four generations living in homes with only one or two rooms.

In the nearly 40 years since the founding of the People's Republic, China has been practicing a housing system under which work units are held responsible for housing their employees, who pay nominal rents.

This practice has imposed a heavy burden on the country's finances, he said.

But the key to solving the housing shortage in China, said Lin Hanxiong, minister of construction, earlier, is to sell commercial apartments to individuals.

With the money, the state will have more funds for new construction, he said.

Last year the Government sold 4.623 million square meters of publicly-owned apartments to individuals, according to an earlier report by the CHINESE YOUTH NEWS.

## FOREIGN TRADE, INVESTMENT

### Shares of State-Owned Enterprises To Be Sold to Foreign Firms

HK1811151788 Beijing CEI Database in English  
18 Nov 88

[Text] Shanghai (CEI)—Shares of a number of state-owned enterprises will be sold to foreign businesses, according to a symposium held here between the commercial and financial circles in Shanghai and the American Chamber of Commerce delegation earlier this week.

The selling of these shares is scheduled to take place next year in one or two enterprises on a trial basis.

### Overseas Labor Services, Building Projects Increasing

HK1811144388 Beijing CEI Database in English  
18 Nov 88

[Text] Beijing (CEI)—Business volume of China's overseas labor services and contracted construction projects is increasing at a rate of 50 percent annually, a responsible official said.

China had signed 5,900 contracts involving 9.24 billion U.S. dollars with 117 countries and regions by the end of June since 1979, and had fulfilled a total business volume of 5.06 billion U.S. dollars. So far, more than 60,000 workers work abroad on labor service projects every year and most of them are sent to Middle East countries.

At first, China restricted its contracted projects in small and medium-sized civilian projects, such as apartment buildings, office buildings, textile mills and water conservancy projects. now contracted projects include the design and construction of sea ports, ocean fishing, resource exploration and other intelligence and technology intensive projects.

Meanwhile, labor services abroad have changed from chefs, seamen and skilled workers only to include to more technical personnel in high-tech fields such as computer software, engineering inspection and management.

In 1984, China Construction Engineering Corporation, China Metallurgy Construction Corporation and China Water Conservancy and Electric Power Corporation contracted to build four dams in Iraq with a total investment of 175 million U.S. dollars.

Last year, the three corporations contracted to build a power station in Pakistan with 195 million U.S. dollars of investment. This year, they contracted to build a dam in Algeria with 240 million U.S. dollars of investment.

They have also founded more than 300 joint ventures, solely-funded and cooperation enterprises abroad.

China is now trying to expand markets in Hong Kong, Macao, Southeast Asia, Africa, and North and the South America.

**Guangzhou Invites Foreign Investment**  
*OW2011003988 Beijing XINHUA in English*  
1537 GMT 18 Nov 88

[Text] Guangzhou, November 18 (XINHUA)—The government of Guangzhou, capital of Guangdong Province, will continue to attract overseas investment and guarantee the construction of foreign-funded projects, a municipal official said here today.

Lei Yu, deputy mayor of Guangzhou, promised to protect foreign-funded projects, though the city, like the rest of the country, is making efforts to cut back on government-funded building of non-production projects.

"We want to save the money for the energy, transportation and raw material supply industries, as well as agriculture and joint ventures," Lei Yu said.

What the central and local governments have done in rectifying the economic order is aimed at better developing the country's economy and opening wider to the rest of the world, Lei said.

During the January-September period, the city signed contracts for 220 projects with foreign investors. The funds invested by overseas businessmen have greatly exceeded those in the same period last year, he said.

Since October, more overseas business people have come to negotiate deals, he noted. "We will take this opportunity to better implement our open policy and welcome any investors who can buy our raw materials and sell products abroad."

The city government has already stopped construction of 23 deluxe hotels, office buildings and restaurants, and saved an investment of 890 million yuan for the building of 28 production projects, including 12 foreign-invested enterprises.

**Shanghai To Build Export-Oriented Economy**  
*HK1811142988 Beijing CEI Database in English*  
18 Nov 88

[Text] Shanghai (CEI)—Shanghai plans to spend about five years in forming the city's international-oriented economy, Lu Guoliang, president of the Shanghai Foreign Economic Relations and Trade Commission said.

He said that in 1992 the proportion of the city's export value will increase from the current 30 percent to about 40 percent, the raw material needed to produce exports will be acquired through the cycle of the world market and the funds needed to improve the city's infrastructure will be raised from the use of foreign capital.

A number of international-oriented enterprises capable of international competition will take shape, most of the traditional industries and old enterprises will be transformed, some major industries and their products will reach the international standard of the 1980's and the people's living standard will be improved markedly, he added.

By the end of October, Shanghai had put to use 924 items of foreign investment, involving about 2.76 billion U.S. dollars. 439 items involving 2.03 billion U.S. dollars, accounting for 73.5 percent of the total, are invested directly by foreign businesses, he said.

in recent years, about 75 percent of the large- and medium-sized enterprises in Shanghai have conducted technological transformation. by the end of 1987, Shanghai had signed 1,068 contracts for introducing advanced technology from abroad, involving more than 1.14 billion U.S. dollars. 859 contracts amounting to 690 million U.S. dollars have been implemented.

According to statistics from 1979 to 1987, Shanghai's export value totalled 33.7 billion U.S. dollars; and the export value of 1987 alone amounted to 4.16 billion U.S. dollars.

In the first 10 months of this year, the export volume through the Shanghai port valued at 3.82 billion U.S. dollars, twice as much as that of the same period last year. it is estimated that the value of export volume this year will hit the highest record of 4.6 billion U.S. dollars.



Shanghai's export value has risen to 28.4 percent of the nation's total in 1987 from 18.2 percent in 1978.

During the period of 1984-87, Shanghai signed 154 contracts with more than 20 countries for exporting labor services and cooperation projects worth 6.16 billion U.S. dollars. they cover such areas as machine building, electricity, dredging, garment, medical services and cooking.

### Commodity Export Figures Released

HK1811152788 Beijing CEI Database in English  
18 Nov 88

[Text] Beijing (CEI)—Following is the statistical table showing the volume of China's major export commodities in October 1988, according to primary statistics released by the General Administration of Customs.

Commodity	Unit	October	Jan-Oct
Live pig	head	257,087	2,503,351
Live poultry	in 10,000	460	3,629
Fresh or frozen beef and mutton	ton	5,590	49,781
Fresh or frozen pork	ton	7,089	54,176
Frozen chickens	ton	4,256	22,227
Frozen rabbits	ton	2,806	13,719
Fresh eggs	in 1,000	68,218	762,041
Aquatic products	ton	24,016	192,530
Live fish	ton	5,893	36,505
Fresh or frozen prawns	ton	6,136	44,684
Others	ton	11,987	111,341
Cereals	ton	579,805	5,864,741
Rice	ton	67,248	607,208
Soybean	ton	99,989	1,300,891
Dried pulses	ton	22,083	471,741
Maize	ton	319,208	3,213,608
Others	ton	71,278	271,293
Vegetables	ton	82,753	593,689
Fruits	ton	48,344	178,741
Tangerine and orange	ton	745	36,439
Apple	ton	28,885	52,593
Others	ton	18,714	89,708
Chestnut	ton	3,217	5,838
Walnut in shell	ton	3,938	5,614
Walnut meat	ton	151	9,720
Sugar	ton	1,695	234,421
Natural honey	ton	3,506	33,697
Tea	ton	19,784	148,024
Canned food	ton	37,617	480,900
Canned pork	ton	7,474	67,638
Canned vegetables	ton	18,274	260,563
Canned fruits	ton	6,171	67,369
Others	ton	5,697	43,331
Flue-cured tobacco	ton	2,243	15,981

Commodity	Unit	October	Jan-Oct
Goatskin	piece	769,262	8,724,548
Fur, raw	piece	291,007	3,716,046
Peanuts, shelled or not	ton	4,018	240,149
Filature silk	ton	560	7,138
Cotton	ton	45,423	423,971
Cashmere	ton	192	2,213
Rabbit hair	ton	1,173	5,679
Salt	ton	17,984	265,350
Tungsten ore	ton	3,637	18,542
Bristle	ton	1,128	8,347
Salted hog casing	ton	1,485	12,940
Crude drugs	ton	6,640	71,555
Coal	ton	487,058	11,113,444
Coke, semi-coke	ton	76,086	555,769
Crude petroleum oil	ton	2,022,732	21,712,113
Refined petro-products	ton	239,876	3,500,400
Edible vegetable oil	ton	914	19,809
Tung oil	ton	2,056	22,473
Lithopone	ton	8,083	81,499
Pharmaceuticals and medicines	10,000 usd	2,192	21,777
Medicaments of Chinese type	10,000 usd	957	7,939
Fireworks & firecrackers	10,000 usd	990	8,065
Rosin	ton	15,527	168,254
Fur plate	piece	123846	1,744,440
Rubber tyre	ton	54,983	898,512
Paper and paperboard	ton	20,785	207,627
Cotton yarn	ton	18,957	159,205
Spun rayon yarn	ton	1,354	13,616
Cotton woven fabrics	10,000 m.	21,483	167,855
Polyester/cotton woven fabrics	10,000 m.	9,337	79,354
Pure silks and satins	10,000 m.	1,491	16,552
Carpets	square meters	1,178,120	5,811,951
Cement	ton	17,151	115,999
Household pottery	10,000 usd	2,241	18,827
Pearl	10,000 usd	67	1,017
Rolled steel	ton	71,498	603,428
Iron and steel wire	ton	12,413	118,186
Copper products	ton	1,559	40,656
Aluminium products	ton	1,550	25,871
Zinc and zinc alloy	ton	474	10,648
Tin and tin alloy	ton	883	8,306
Tungsten	ton	45	225
Antimony	ton	4,170	23,803
Sewing machine	set	61,664	641,407
Textile machine	10,000 usd	544	4,055
Machine tool	set	49,236	329,851
Bearing	10,000 usd	1,121	7,026
Wrist watch	piece	2,790,910	22,984,816

Commodity	Unit	October	Jan-Oct
TV set	set	334,134	1,855,364
Color TV set	set	178,992	1,110,431
Monochrome TV set	set	155,142	744,933
Recorder	set	1,303,378	9,064,965
Electric fan	set	554,659	6,704,527
Bicycle	set	110,840	1,063,613
Garments:			
Suits	pieces	15,147	141,597
Leather shoes	in 10,000 pairs	2,397,350	24,776,435
Toys	10,000 usd	22,642	
Rubber and plastic-soled cloth shoes	10,000 pairs	1,696	16,027
Exported goods	10,000 yuan	68,403	507,514

Processed and assembled with imported material (excluding those processed on contracts)

**October Imports Compared to Previous 10 Months**  
*HK1811153188 Beijing CEI Database in English*  
18 Nov 88

[Text] Beijing (CEI)—Following is the statistical table showing the volume of China's major import commodities in October and the first ten months of this year, according to the primary statistics released by the General Administration of Customs.

Item	Unit	October	Jan-Oct of 1988
Cereals	ton	897,113	12,319,209
Wheat	ton	813,919	11,626,309
Soybean	ton	30,930	150,039
Others	ton	52,264	542,862
Sugar	ton	341,437	2,935,947
Cigarette	1,000 sticks	1,633,591	13,194,797
Natural rubber	ton	13,875	283,933
Synthetic rubber	ton	3,811	25,281
Log	cubic meter	747,736	7,415,846
Pulp	ton	59,047	596,811
Cotton	ton	6,224	24,628
Jute	ton	[figures not received]	
Synthetic fibres suitable for spinning:	ton	26,765	297,666
Polymide fibres	ton	166	1,489
Polyester fibres	ton	5,713	74,909
Acrylic fibres	ton	20,395	218,375
Others	ton	491	2,892
Yarn of synthetic fibres	ton	5,533	84,484
Polyamide fibres	ton	1,490	16,855
Polyester fibres	ton	2,325	50,136

Item	Unit	October	Jan-Oct of 1988
Others	ton	1,718	17,493
Regenerated fibres suitable for spinning	ton	5,921	63,329
Yarn of regenerated fibres	ton	722	17,086
Rayon	ton	657	16,523
Wool	ton	7,518	146,972
Iron ore	ton	1,024,145	8,055,478
Crude drugs	ton	963	16,106
Coal	ton	166,508	1,394,891
Crude petroleum oil	ton	424,191	
Refined petroleum	ton	273,770	2,138,450
Products animal oils and fats	ton	12,850	91,855
Unprocessed edible vegetable oil	ton	11,855	123,071
Other vegetable oil	ton	24,196	309,881
Caprolactam	ton	6,621	85,043
Neutral sodium carbonate	ton	24,845	623,955
Synthetic organic	ton	901	8,238
Dyestuff manufactured fertilizers [as received]	ton	880,268	11,273,235
Urea	ton	479,246	6,313,538
Others	ton	401,022	4,959,697
Pesticides	ton	3,051	29,809
Paper and paperboard	ton	56,907	642,069
Newsprint	ton	7,719	69,440
Others	ton	49,187	572,629
Cement	ton	114,406	1,136,253
Steel ingot	ton	2 [as received]	
Steel billets and roughly forgings	ton	2,056	139,516
Steel products	ton	595,206	6,605,372
Steel wire rod	ton	51,492	688,187
Steel angles, shapes and sections	ton	46,354	466,986
Steel plate (over 3mm)	ton	95,264	951,431
Steel plate (less 3mm)	ton	157,584	1,793,512
Seamless steel pipe	ton	106,191	979,029
others	ton	138,321	1,726,228
Iron and steel wire	ton	1,714	15,592
Copper and its alloy	ton	10,725	33,146
Aluminium and its alloy	ton	7,886	32,211
Zinc and its alloy	ton	7,012	43,372
Machine-tool	set	3,340	35,836
Electronic calculator	set	141,740	1,103,020
Copying apparatus	set	1,024	8,237
Electronic computer	set	1,349	18,049
Complete digital data processing machine	set		
Less 16-bit word-length	set	516	12,890
Over 16-bit word-length	set	833	5,159
TV set	set	64,752	291,107
Color TV set	set	64,732	287,680
Monochrome TV set	set	20	3,427
Radio	set	16,030	315,386
Sound recorders	set	135,538	1,251,354

Item	Unit	October	Jan-Oct of 1988
Video recorders	set	22,794	53,169
Washing machine	set	326	29,694
Household	set	282	29,074
Other	set	44	620
Household fridge	set	31,471	338,032
Non-household fridge	set	6,017	16,356
Air-condition machine	set	7,252	69,864
Electric fan	set	2,176	27,268
TV picture tube, cathode ray	piece	1,062,228	7,825,686
Motors and chassis	unit	10,344	67,492
Sedan car	unit	2,539	24,367
Jeep	unit	2,488	7,843
Minibus (9 seats less)	unit	209	1,783
Combined passenger-cargo car	unit	274	1,457
Truck or dump truck			
Over 8000 kg loading	unit	102	2,837
Under 8000 kg loading	unit	607	7,270
Bus (over 30 seats)	unit	21	317
Bus (10-29 seats)	unit	163	2,016
Others	unit	3,941	19,602
Motorcycle	unit	2,932	20,743
Bicycle	unit	14	1,132
Ship	unit	19	3,500
Camera	set	22,083	86,313
General cameras	unit	22,039	86,007
Cameras for scientific, medical, photographing	unit	44	306
Wrist watch	piece	60,036	793,641
Mechanical	piece	5,865	253,519
Electronic	piece	54,171	540,122
Imported materials for processing, assembling	1,000 usd	63,902	534,706

## ECONOMIC ZONES

### Xiamen Attracts More Taiwan Investors OW2011112788 Beijing XINHUA in English 1034 GMT 19 Nov 88

[Text] Xiamen, November 19 (XINHUA)—Xiamen City in Fujian Province has adopted a series of measures to attract more Taiwan investors, a local official disclosed today.

While assigning a special department to give guidance to Taiwan investors, the city government has published a package of preferential terms aimed at encouraging Taiwan businessmen to invest in the city, the official said.

Taiwan investors enjoy priority in transport and at the city's customs, banks, departments of foreign economic relations and trade, department of personnel, and insurance companies.

Consultancy services on how to invest in the city are available for Taiwan investors, who also enjoy freedom to choose the form of management of their joint ventures in the city.

Meanwhile, the city has opened air routes to Hong Kong, Singapore, Manila and the Ryukyu Islands to provide convenience for Taiwan investors, said the official.

As a result, Taiwan businessmen are flocking to the city to talk over investment in the area.

By the end of October, the city government had approved 85 projects invested in by Taiwan businessmen, with a total investment volume surpassing 20 million U.S. dollars.

Most of newly approved projects are medium and small enterprises solely funded by Taiwan investors, and they are mainly involved in light industry, electronics, chemicals, aquatic breeding, and real estate. The products of these enterprises are export-oriented.

Some Taiwan businessmen also plan to move their factories from Taiwan to Xiamen, said the official.

By now, 30 of the enterprises invested in by Taiwan investors have gone into operation, and some of them have started to earn profits.

## AGRICULTURE

### Setting Priorities for Grain Price Reform 40060136 Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese No 10, 23 Oct 88 pp 19-23

[Article by Duan Yingbi 3008 2019 4310 of the Central Research Office of Rural Policies: "Some Ideas on Grain Price Reform"]

[Text] As a part of price reform, grain price reform has become an increasingly important item on the agenda. People have come up with all kinds of opinions, proposals, and plans concerning such issues as when and how to carry out this reform. This is an important matter that concerns the daily life of all people, so it is necessary to allow people of various opinions to carry out extensive discussions to help adopt more scientific policy decisions on the reform. Therefore, I would also like to talk about some of my humble opinions.

#### I. Grain Reform Should Be Carried Out First

In spite of the preliminary reform, the unified grain procurement and distribution system, which China has been implementing for many years, has failed to change the situation in which low-price supply is maintained by low-price procurement from farmers. Because it violates

the law of value, it has actually restricted grain production, stimulated food consumption, increased the financial burden, and sharpened supply and demand imbalances. With a large population and limited land and grain resources, China needs to pay attention to developing production and guiding consumption to gradually form a food consumption pattern that suits China's situation of grain resources. Therefore, we must carry out grain price reform and enable it to accelerate production, increase supply, restrict demand, and guide consumption. Our current problem is that not only grain prices need to be reformed, but the prices of such capital goods as steel products and communications and transportation also need to be reformed. We cannot imagine starting all of these reforms simultaneously next year, nor could society endure it. We can only carry out some first and others later. As for which reform to carry out first next year, there are generally the following two opinions: 1) Price reform of capital goods such as steel products should be carried out first, and grain price reform should take only small steps; 2) grain price reform should be carried out first, and the others should be put off for some time. In comparison, I think that it would be better to first reform grain prices next year. If we had to reform the prices of capital goods first, we should at least allow the grain price reform to take medium-sized steps. The reason is:

**A. Grain price reform is more urgent.** In the past few years, grain consumption increased very fast, over 15 billion kg a year on the average, while grain production stagnated and failed to resume the 1984 levels, forcing the state to substantially increase grain imports. Without the grain price reform, it would be very difficult to bring the overheated growth of consumption under control and break the stagnant situation of production, and the gap between supply and demand would continue to expand. In particular, we must not be misled by the slow recovery of grain production in the past few years and think that it would be okay to put it off for a few years. We should understand that in the past when farmers complained about low grain prices, the problem was low relative profits because those growing cash crops and engaging in industrial work and business were better off than those growing grain crops. However, since market demand for cash crops was limited and not everyone knew how to do industrial work and business, grain output continued to go up year after year in spite of grain farmers' complaints. But things are different now. Since the beginning of last year, the prices of the means of agricultural production have increased drastically and the cost of grain production has increased sharply. As a result, not only have the relative profits of grain production areas and farmers dropped still lower, their actual income has also shrunk. This new situation is very likely to result in a considerable decline in China's grain production as in 1985. One of the signs is that the fall grain acreage was reduced by 10 million mu after the

summer grain output declined this year. This barrier of the grain price reform can no longer be by-passed; efforts to maintain the existing system will inevitably result in more serious consequences.

**B. Grain price reform has very little effect on commodity prices as a whole.** Because grain production relies mainly on non-commercial input such as labor and land, unlike steel production which relies completely on commercial input such as energy and raw materials, raising grain prices to stimulate grain production has very little to do with the prices of input. Grain is a direct consumer good for the processing industry, unlike steel products, and have to go through several levels of processing before reaching consumers. In sum, since the price chain of grain is short, reforming grain prices has relatively little effect on commodity prices as a whole.

**C. Grain price reform can yield fast results.** The grain production capacity already reached the level of 407.3 billion kg in 1984. Based on the average growth rate of the past 30 or so years, the current production capacity should be over 425 billion kg. But due to the change in price conditions, we have failed to give full play to our production capacity. After the reform lifts the basic price restrictions on grain production capacity, grain output will increase quickly as a result. However, steel products and other capital goods are different. Although they too have the same problem of below-capacity operation, their main problem is deficiency before production (in energy resources and mines) and during production (in smelting and rolling process), and it takes a long time to build up these areas; therefore, it is very difficult to reach the goal of increasing supply in a short period of time by raising prices.

**D. The price rise of farm products cannot be held down by putting off grain price reform.** Reforming the prices of capital goods first and allowing grain price reform to take small steps will inevitably enlarge still further the price disparity between industrial and agricultural products. In the past when all products were purchased and distributed by the state in a unified manner, it was possible for the prices of industrial and agricultural products to rise or fall separately. Now it is different. Because the prices of most agricultural products have been decontrolled, farmers will raise the prices of decontrolled agricultural products to make up the losses caused by the price rise of industrial products, thus resulting in simultaneous price rises for industrial and agricultural products. In the past few years, the prices of the means of agricultural production and manufactured goods for daily use rose sharply, but farmers' income continued to increase year after year, and 60 percent of their surplus income came from price rises of decontrolled agricultural products in addition to engagement in industrial work and business. Those products whose prices have not increased are those which are not decontrolled, and the first on the list is grain under a procurement contract. Therefore, if we choose the plan to reform the prices of



capital goods first, we will cause grain production to decline and the prices of other agricultural products to rise still higher automatically.

## II. Choose a Reform Goal To Suit National Conditions

What is the goal of grain price reform? The common understanding is to change unified procurement and distribution to "market regulation under the guidance of state plan." As for the concrete goal, there are three different propositions: The first one is a "dual-track pricing system," namely, allowing the state to procure and distribute some products at low prices and leaving the others to market regulation, or maintaining the basic situation of the current system. The second one is "fixed quantity and floating price," namely, reserving farmers' procurement task and residents' grain ration standards and allowing grain to be purchased and sold at market prices. The third one is "free purchases and sales," namely, purchasing and selling grain at market prices, abolishing the procurement task and grain ration, and allowing farmers to sell and residents to buy on open markets and the state to suppress market fluctuation through such regulatory means as buying or selling grain. These three propositions actually reflect three different reform ideas.

Judged from the current situation, the "dual-track pricing system" is definitely out because it not only suppresses production but also stimulates consumption. However, completely "free purchases and sales" do not suit our national conditions either and are not feasible, at least in the near or foreseeable future. There is no doubt that as a commodity, grain should follow the principle of "voluntary transaction and exchange of equal value. The problem is that China's grain is produced on a small scale and most of it is for self-supporting purpose. So-called "commodity grain" is surplus grain of numerous households. China now has over 100 billion kg of social commodity grain, which was provided by approximately 130 million farmers' households, averaging less than 100 kg per household. As far as most farmers' households are concerned, commodity grain is not the basic resource of family income and therefore does not need to be sold immediately after it is produced. If all grain is allowed to be traded freely, the whole grain market will be turned upside down once farmers decide to hoard grain, even for as little as 6 months. This, however, would not affect individual farmer's households because whether their grain is sold earlier or later does not make much of a difference to them. Only when grain farmers engage in large-scale production, when all their grain is sold as commodity, and when they cannot pay back their loans and engage in reproduction if they do not sell grain in a timely manner can we consider "free purchases and sales." This calls for a rather long process. In order to guarantee urban supply, it is safer to choose the goal of "fixed quantity and floating price" for the reform in the near and foreseeable future.

The main cause of farmers' low enthusiasm for growing grain is not the quantity of procurement contract, but the excessively low procurement price. Fixing the quantity but not the price to reserve farmers' procurement quotas may adversely affect some farmers who want to readjust their production structure, but because that part of grain output is guaranteed not only a reasonable price but also a stable market, it is beneficial to farmers in general. Judged from consumption, the main stimulant of food consumption at the present is not the standards of grain ration either, because nobody would eat more just because their ration is higher. Instead, excessively low selling prices encourage the people to waste grain. Reserving the standards of residents' grain ration and selling grain at market prices can bring into play the role of price in guiding consumption, reassure the people, and help organize the supply of commodity grain.

In sum, choosing the goal of "fixed quantity and floating price" not only can firmly uphold the law of value and turn the current system that suppresses production and stimulates consumption into a new system that accelerates production and guides consumption but also suits the actual condition of China's grain production and management and helps stabilize production and supply.

## III. Reform in Two Steps: First, Readjust; Second, Decontrol

It is impossible to reach the goal of "fixed quantity and floating price" in one move; it must be attained in a planned and step-by-step manner.

At present, the actual amount of grain procured under contracts is 51 billion kg and another 13 billion kg is "procured on commission." The average disparity between state and market prices per kg is around 0.24 yuan for the former and 0.12 yuan for the latter. If the prices of procurement contracting are raised to the level of market prices, the total price of grain procurement will increase as much as 15 billion yuan, or 13.5 billion yuan after deducting agricultural taxes, and affect approximately 7 percent of the procurement price index of farm products. About 72.5 billion kg of grain is now sold at state prices. If all grain is supplied at market prices, the total price increase will reach 29 to 30 billion yuan, calculated on the basis of 0.4 yuan of difference between state and market prices, and it will have a direct impact on approximately 6 percent of the retail price index of consumer goods. This does not include chain reactions. Obviously it is impossible to reach the goal in one move because society cannot endure such a high price increase.

In accordance with vigorous and safe principles, we should carry out the reform in two steps: "first, readjust; second, decontrol." In other words, next year we should first properly readjust grain procurement and sales policy and prices, including properly raising the prices of contract procurement, reducing the sales of above-ration grain to urban residents at state prices, and abolishing

farmers' "commission procurement" task, while vigorously establishing a wholesale grain market system and a reserve and regulatory system to create conditions for deeper reform. After this step, we should gradually raise grain's procurement and sales prices to the market price level and achieve the goal of fixing quantity but not price for both procurement and sales.

Carrying out the reform in two steps may extend the shock waves, namely "short-term pain is better than long-term pain," but first, it can reduce the shock on society and second, it can avoid repetition. Due to a long-term practice of unified procurement and sales, China has failed to establish a standardized grain market and there is much to be desired in its market regulatory structure and methods. Under this situation, relaxing control of grain procurement, sales, and prices will inevitably lead us to the situation in which "confusion appears as soon as control is relaxed and control is tightened as soon as confusion appears." To adopt the two-step strategy, next year while readjusting grain procurement, sales, and prices, we should establish a wholesale grain market system and a reserve and regulatory system, include large-quantity grain transactions in the wholesale market under state management, and carry out legal competition; whenever the market fluctuates, the state will have means to organize regulatory procurement and sales to stabilize market prices within a reasonable range. Only after we have these conditions, can we avoid repetition. The progress of reform may seem slow this way, but it is actually faster.

#### IV. Take Medium-Sized Steps in Raising Procurement Prices

How much should the price of contract procurement be raised should be considered in connection with the means of agricultural production. In other words, we should consider compensation for grain farmers' losses caused by the price increases of the means of agricultural production in the past few years and their possible new losses that may be caused by similar price increases next year. This is the minimum requirement.

In 1983, the average price disparity between grain and chemical fertilizer was 1:1.52, namely 50 kg of grain could be exchanged for 76 kg of chemical fertilizer. (Grain price is the composite price of wheat, corn, and rice, and chemical fertilizer price is the composite market and state prices of standard chemical fertilizer. This holds for the following.) This price disparity seems reasonable now. The fact that grain production was stable then proves that it is a reasonable price disparity that can encourage farmers to increase input and develop production. In 1987, the price disparity between grain and chemical fertilizer became 1:1.21, namely 50 kg of grain could be exchanged for 60.5 kg of chemical fertilizer. The price of chemical fertilizer rose 13 percent in the first half of this year and is expected to exceed 15 percent by the end of this year. So this year, the price disparity between grain and chemical fertilizer will drop

further to 1:1.1, namely 50 kg of grain can be exchanged for 55 kg of chemical fertilizer. Based on the 1983 price disparity between grain and chemical fertilizer without considering next year's price increase in the means of agricultural production, the price of contract procurement should be increased by 31.7 percent next year in order to make up farmers' losses caused by the price increases in the means of agricultural production in the past few years. In other words, the price of 50 kg of grain should be increased by 8.30 yuan. From 1985 to 1987, the difference between the market and state prices of 50 kg of grain increased from 2.84 to 11.6 yuan, a difference of 8.76 yuan which is an exact reflection of above-mentioned changes in the price disparity between grain and chemical fertilizer.

It is impossible to raise procurement prices by such a large margin by relying only on state revenue. The best way to do so is to link procurement prices to sales prices. In other words, procurement and sales prices should be raised simultaneously. This will not enlarge the difference between procurement and sales prices, nor will it create a new strain on state revenue.

We may also consider adopting the exchange method of bartering grain for chemical fertilizer. Calculated in accordance with the current procurement price of contract grain and the state fixed price of chemical fertilizer, generally 2 kg of standard chemical fertilizer may be traded for 1 kg of rice, 1.5 kg of standard chemical fertilizer for 1 kg of wheat, and 1 kg of standard chemical fertilizer for 1 kg of corn. If grain procured under contract can be reduced to 30 billion kg in addition to the grain collected as agricultural taxes (it is not impossible to balance income and expenditure if we restrict grain sales, collect all agricultural taxes and import some grain), we would need 46.42 million tons of chemical fertilizer (standard). The advantage of doing so is that it lets farmers know what to expect always, eliminates the need to study the issue of readjusting grain prices every year, and guarantees a steady growth for grain production. And it can also break through the obstructions of grain procurement once and for all, free grassroots cadres from arduous procurement work, and is very conducive to strengthening rural work and improving the relationship between the cadres and the masses. It is a better choice before the decontrol of grain procurement and sales prices.

Last year China had about 100 million tons of chemical fertilizer resources. Judged by the total amount, it is possible to set aside 46 million tons to be used in bartering for grain. The problem is that we need to centralize the targets of chemical fertilizer sold by all provinces and departments at state prices. According to an investigation of Hunan, chemical fertilizer targets are controlled by 28 departments in the province and many are used to bargain with farmers to gain profits for their own departments. As a result, the state spent money but

farmers did not benefit from it. Centralizing chemical fertilizer targets scattered in different departments is another requirement for the reform.

#### **V. A Decentralized Policy Should Be Adopted To Suppress Sales**

Urban and town residents' grain ration accounts for about 65 percent of all state-subsidized sales of grain at state prices, and the rest is for industrial use and sales back to rural areas. Due to the extensive scale of supply and the huge volume of sales, the state cannot but procure some grain at low prices from farmers in addition to grain procurement contracts, which is the so-called "secondary unified procurement." This practice of unified procurement and sales in quantities is unfavorable to grain production and the development of the national economy as a whole. Suppressing the sales of grain at state prices should be the key task in the first step of the reform.

There is a great potential in suppressing sales. If we reserve grain only for urban and town residents' ration and military use, we may reduce the sales of state-price grain by approximately 23.5 billion kg. In this way, we can abolish "secondary unified procurement" task as well as the emergency and additional tasks of government organs at all levels and use imported grain for reserve and regulatory purposes. This is very conducive to expanding market regulation and developing grain production.

It is feasible to suppress sales. Beginning 1 April of this year, Shanxi Province supplied all grain at negotiated prices after reserving some for use as the grain ration of urban and town residents (under 14 kg), some for military use, and very little for use as feed, thus reducing the province's state-price sales by 40 percent. Judged from the situation of its implementation, except for the first few days in which the phenomenon of "panic buying" occurred in some areas, neither the price level nor the public's feeling has fluctuated much.

Because economic and social conditions differ substantially in different localities, it would be better for them to make their own policy decision in regard to the reform of suppressing the sales of state-price grain. In other words, what to suppress first and what later, which items should be subsidized and which should not—all these should be decided by local governments in accordance with their actual conditions. We should not make the whole nation march in step and practice "uniformity." Decentralizing policy decisions may cause some regional frictions, but it helps in sharing risks and because concrete measures conform better to the reality, their results are better too.

The precondition of letting localities make their own decisions is that the amount of subsidy saved by suppressing the sales and reducing the procurement of grain at state prices should be given to the localities to be used as they please and not be withdrawn by the central

government. Otherwise, if whoever relaxes control suffers, nobody would want to do it. Therefore, we must stick to the grain contract system of all provinces and let those localities benefit first and more if they decontrolled first and more.

#### **VI. Raising Taxes and Reducing Procurement Should Be Prudent**

Many comrades hold that current land tax is too light and suggest that we raise the prices of contract procurement by increasing land tax. This will not increase the financial burden and can do away with the low-price procurement of grain. At the same time, it can also play a role in regulating the profits of grain and cash crops. It is indeed a very meaningful reform. However, we must be very careful if we want to carry it out immediately throughout the nation.

First, there is operational difficulty. Land tax was determined on the basis of the general survey of farmland and the estimate of output conducted in the 1950's, and whether or not an area's land tax is high depends on whether or not its output was high at that time. After 30-plus years, things have changed substantially. Some originally low-yield areas have become high-yield areas, land taxes are still reserved for certain land which has been used for other purposes, and some impoverished areas have been exempted from some or all land taxes. To extensively readjust agricultural taxes, we cannot use land acreage or actual output as a base and therefore must carry out a nation-wide land survey and appraisal, which is very time-consuming.

Secondly, there is a problem with speciality tax. Speciality tax, which is levied basically on all cash crops, is a means to regulate the profits of grain and cash crops. If we raise land tax extensively and use the increased tax revenue to raise the prices of grain procurement, it would be like subjecting grain and cash crop profits to another readjustment.

Thirdly, there is a problem with uneven tax and price increases. The market price of grain changes every year, and the general trend is rising year after year. But it is impossible to readjust land tax once every year, and it should be kept relatively stable. Therefore, if we use the increased land tax revenue to raise the prices of contract procurement, we would find ourselves "out of money." Before the selling price is decontrolled and under the condition of uneven tax and price increases, we must choose either increasing state subsidy or procuring at a price lower than the market price. It is very difficult to firmly establish a "new mechanism."

Therefore, land tax can be increased throughout the nation only after the purchasing and selling prices of grain are decontrolled and land appraisal is conducted. At present, we should experiment in selected areas to find out the problems and accumulate experience.

Many people now agree that the amount of contract procurement should be reduced, but I think one must be very prudent in making such a policy decision. Judged by the situation as a whole, if we can reduce the sales of state-price grain by approximately 23.5 billion kg and the nation's contract grain procurement by 10 billion kg, it is possible for us to balance by importing grain revenue and expenditure within the budget. The problem is that reducing state-price sales needs a process and cannot be accomplished altogether in the beginning of next grain production year. Under this situation, farmers do not necessarily benefit directly from the reduction of contract procurement. For instance, last year, contract procurement was reduced by 10 billion kg, but many things remained unchanged at lower levels. And it is not proper to include imported grain in the balanced plan. It should be used as a means of the state to regulate market; otherwise, we will be thrown into a passive position.

Therefore, we should not consider reducing the amount of contract procurement next year. We may use the money saved by reducing procurement to raise the prices of contract procurement.

#### VII. The Establishment of Two Systems Must Not Be Ignored

Grain price reform should have corresponding supplementary measures. The most important one is to establish the wholesale and the reserve and regulatory systems.

A grain market must be open all year round and allow multiple-channel circulation. However, large quantities of grain must be traded in state-managed wholesale markets through legal competition. Only by doing so can we possibly prevent market confusion, that might be caused by multiple-channel circulation, and avoid the situation in which "confusion occurs as soon as prices are decontrolled and prices are tightened as soon as confusion occurs." The present "tide market," in which suppliers pour into the market when grain is scarce and vanish when grain is ample, obviously is not going to work. Therefore, to reform grain prices, the first thing is to establish a wholesale grain market system.

The wholesale grain market system should be formed with central and local markets. Central wholesale markets deal with inter-province futures trade and local wholesale markets deal mainly with international grain futures and spot transactions. There are also different kinds of retail markets for producers and consumers to engage in small-scale direct spot transactions. Wholesale markets should have strict trading rules. For instance, all brokers and wholesale dealers entering the market must go through a strict credential check and be approved, registered, and licensed. Large-quantity transactions of grain, both futures and spot, must be handled by brokers, and outside transactions should be strictly forbidden. Market managers must not be allowed to act as brokers and wholesale dealers, etc.

Nature has great influence on grain production, so the fluctuation of grain production is inevitable. Along with the expansion of market regulation, a new cause of production fluctuation will appear, that is—market fluctuation. To reduce production and market fluctuation and strengthen the security and protection of grain, the government must establish a grain reserve and regulatory fund and a corresponding regulatory organ. This government organ should conduct periodic research on the highest and lowest limits of market prices that are acceptable to producers and consumers. To protect producers, the government should "swallow" or buy at the lowest price when market prices are lower than the lowest limit; to protect consumers, the government should "spit out" or sell at the highest price when market prices are higher than the highest limit. This is the most effective method of the state to control and regulate the market. Should we ignore the construction of the state's reserve and regulatory system in the process of reforming grain prices, we will not be able to achieve the desired result of the reform.

#### Country Increases Seafood Products Production

OW2011004488 Beijing XINHUA in English  
1213 GMT 18 Nov 88

[Text] Beijing, November 18 (XINHUA)—China produced 10 million tons of seafood products this year, an increase of 8 percent over last year, XINHUA learned today.

"China's aquatic industry has developed fast in recent years," sources of the Aquatic Bureau of the Ministry of Agriculture said. "The output this year is equal to 2.5 times that of 1979."

He attributed the result to the policy of opening up to the outside world, more vessels used for fishing and more area developed for raising fish, crab and other seafood.

According to the bureau, there are 270,000 power-driven, sea and oceangoing vessels in China, five times more than that in 1979.

Thirteen fishing production bases and more than 80 medium and small-sized fishing ports have also been established since that time.

He said that canned and fresh food from both ocean and freshwater sources totalled 4.58 million tons last year, making up 48 percent of all aquatic products.

Sixty Chinese oceangoing ships have been fishing commercially since 1985, and catch an estimated 100,000 tons of fish a year, he added.



**Jiangsu Takes Measures To Fight Drought**  
*OW2511062088 Nanjing Jiangsu Provincial Service  
in Mandarin 1015 GMT 19 Nov 88*

[Excerpts] By 17 November more than 43.93 million mu of wheat, barley, naked barley, and beans had been planted throughout the province, exceeding the planned acreage by over 20,000 mu and surpassing by 166,000 mu the acreage of similar crops harvested this summer. More than 7.27 million mu of rapeseed had been planted, which is more than 90 percent of the planned target and represents an increase of 1.2 million mu over the acreage of planted rapeseed harvested this summer.

The province's drought situation has gone from bad to worse in the past month because the province received practically no rainfall during the period. According to a survey conducted in Lianshui County, no wet soil could be found 2 inches below the surface in some areas. The drought has seriously affected planted seedlings. Yangzhou City has taken antidrought measures on 3.75 million mu of its more than 6.38 million mu of planted wheat, barley, and naked barley; but seedlings have not emerged or have sparsely emerged in 10 percent of the total planted acreage. [passage omitted]

Recently various Jiangsu localities have taken emergency measures to combat drought and protect seedlings. The Wuxi City party committee and government held a meeting on 14 November. It called on various areas to combat drought by strengthening water conservancy facilities management and field management to retain soil moisture and ensure the seedlings' healthy growth. [passage omitted]

According to incomplete statistics released 17 November, antidrought measures have been taken on 13.74 million mu of wheat, barley, naked barley, and beans throughout the province; additional fertilizer has been applied on nearly 5.2 million mu; and new seedlings have replaced old on 1.3 million mu.

**Numbers of Pigs, Sheep Rising**  
*HK1811145788 Beijing CEI Database in English  
18 Nov 88*

[Text] Beijing (CEI)—The number of pigs and goats is on the increase in the first three quarters of this year and China's pig-raising industry continues to pick up, according to the statistics issued by the State Statistical Bureau.

From January to September, about 159 million pigs were slaughtered in 24 provinces, municipalities and autonomous regions, 6.7 million more than last year and an increase of 4.4 percent.

Of these areas, 15 provinces and regions have increased their pig-slaughtering. Sichuan Province increased the number by 5,508 million [number as received], Hunan and Shandong Provinces respectively increased by 1.096 million and 660,000, and Guangxi Zhuang Autonomous Region by 655,000.

By October, the total number of pigs in 24 provinces, municipalities and autonomous regions was 309 million, 3.9 percent higher than the same period last year.

There are 17 provinces and regions which have increased the pig number, with an increase of 3.84 million in Sichuan Province, 2.23 million in Shandong Province and 1.09 million in Yunnan Province.

The favorable turn in pig-raising lies in the drastic rise of the purchase and sale prices of pork and better economic results in the trade.

In the first eight months, the average purchasing price by state stores for 50 kilograms was 143.56 yuan, 47.5 percent higher than the same period of last year.

Up to September, the output of pork and mutton in the 24 provinces, municipalities and autonomous regions was 12.2 million tons, an increase of 1.07 million tons or 9.6 percent compared with the same period last year.

Of the increase volume, pork increased by 11.49 million tons, an increase of 913,000 tons or 8.6 percent, and sheep wool increased by 121,000 tons, up 8.6 percent [sentence as received].

By the end of September, the number of sheep and goats was 144 million, an increase of 19.05 million or 15.3 percent over the same period last year. The number in Shandong Province increased by 4.74 million, Inner Mongolia by 3.57 million, Henan Province by 2.32 million and Hebei Province by 1.8 million.

The chief reason for the boost in sheep-and-goat raising is the rising price. At present, the price for one kilogram of mutton is six to seven yuan and one piece of skin will sell for 30 yuan.

Meanwhile, the governments in many places have adopted favorable measures to develop sheep-raising and to supply materials for wool spinning industry, in addition to the fact that the grass is growing well in the herding areas this year.

**Pervasive Low Cultural Quality Lamented**  
40050125 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 45, 7 Nov 88 pp 6-8

[Article by Xia Yan 1115 5888 "Talks Freely About the Cultural Quality of the People"]

[Text] On the eve of the convening of the Fifth Chinese Congress of Literary and Artistic Circles, the correspondent paid a call on the dozen of the literary world, and the leader of the preparatory group for the present literary congress, Xia Yan. This person, who is the same age as the present century, is due to fly to Japan in a few days to receive the international exchange grand prize issued him by the Japanese "International Exchange Fund." This is an honor and an award given him by the International Exchange Fund for his outstanding contributions to Chinese culture and to Sino-foreign cultural exchange endeavors. The Japanese international exchange award originated in 1973, and it is given each year to a group or individual that makes an outstanding contribution to international cultural exchange. Two people received this special honor this year: the renowned Japanese conductor Seiji Ozawa, and the renowned Chinese author and former director of the Sino-Japanese Friendship Society, Xia Yan. Xia Yan is the first Chinese to receive the award. Previous recipients of this award have all been internationally prestigious experts, scholars, or academic research groups, such as the American expert on Japanese affairs, Edwin O. Reischauer, and the famous Japanese film director Akira Kurosawa, the Japan-China Cultural Exchange Society, and the Japan-Africa Society.

**Hope That the Literary and Arts Congress Will Be a Congress That Vigorously Promotes Literature and the Arts**

The 88-year-old Xia Yan is still lively in spirit and nimble in thought. In speaking about the Literary and Arts Congress, he said, "I was supposed to head the preparatory group, but I said this was a titular position, and the real work was done by assistant group leader Lin Mohan [2651 7817 3211] and Wu Zuqiang [0702 4371 1730]. The current congress was to have been convened in 1985; however, for various reasons, it dragged on until the present time. The preparatory work has been underway for several years, and the congress is to be held in November. This will be the first grand meeting of Chinese literary and artistic circles in 9 years. The conference will discuss the work that the Chinese Literary and Artistic Circles Association has done during the past several years, will revise the 'Chinese Literary and Artistic Circles Association Charter,' and will shape a new leadership apparatus. This group of mine brings up the rear. I hope that this congress will be a unified congress, a forward looking congress, and a conference that vigorously promotes literature and the arts."

**A Most Pressing Issue for China Is Improvement of the People's Cultural Quality**

Next, Xia Yan's topic of conversation changed. He began to talk about important Chinese matters, and about the hottest topic of conversation in Chinese society today. He said: The most pressing problem in China today is improvement of the cultural quality of the people. This means conscientiously taking a firm hold on education, particularly middle and primary school education. He said the 1980's is an information age, an electronic and laser age, and a biological science age in which new techniques and new materials steadily appear, science and technology change with each passing day, and high technology develops swiftly. If the public lacks the knowledge necessary to be world citizens, China will fall behind, will come under attack, and will be expelled from "world membership."

Xia Yan is a sports enthusiast, so conversation turned quite naturally to the twenty-fourth olympic recently concluded in Seoul. He said that our athletes did not perform as well as they should have in the olympic games. In addition to problems including organization, training, quality of athletes, and so on, there was also a problem of cultural quality. Many of our outstanding athletes are from peasant backgrounds. He Zhuoqiang [0149 3504 1730] and Zheng Haixia [6774 3189 7209] are cases in point. They have a fine physique, and they are able to bear hardship and stand hard work. This is their strong point. But in sports today, attention has to be paid to scientific training. Without a certain amount of scientific knowledge, and without understanding a little something about psychology and physiology, it becomes very difficult to rise beyond a certain level. After losing a game, it is common to say that the athletes' "state of mind was not calm," but what can be done to make it calm? This relates to having a certain amount of cultural and scientific knowledge, and also having at least a secondary technical school educational level. When newspapers report on foreign athletes, they usually say that so-and-so is a such-and-such a year student at such-and-such a college, or an outstanding student in such-and-such a subject at such-and-such a university, etc. America's black athletes are no exception. What about us? Experts say that most of our secondary technical school and university students in sports academies today learn only a little bit of foreign languages, and rarely study culture and science. One athlete even said, "The Yellow River finally flows into the Yangtze River." China's former Beijing opera performers came out of the old style opera schools, and were without formal schooling. However, just as big waves wash away sand, the performers who truly established a reputation such as Mei Lanfang [2734 5695 5364], Cheng Shuoqiu [4453 4311 4428], and Zhou Xinfang [0719 0207 5364] worked hard at self-study to become cultured. They studied diligently to become versed in literature and the arts. Zhou Xinfang's home was filled with books. He and I discussed the *Book of History* clearly and logically. He was able to analyze Han Xin and Xiao He's background,

predicament, and temperament. These performers liked to read, and they were very self-effacing. Only because they had become cultured were they able to attain a high degree of technical proficiency in the performance of their art.

#### **Where Does the Practice of Vying With One Another and Rebuilding Come From?**

Next, Xia Yan spoke about the recently published communiqué of the third plenum of the 13th Party Central Committee. He said that "bringing the economic climate under control, and restructuring the economic order" has been the focus of the past 2 years of pervasive reform, and this is certainly extremely important; however, in reviewing the past, the question arises as to why our investment in capital construction outside plan can never be held down. Why is it that despite repeated remonstrations from the central authorities, all the ministries, commissions, and local governments still are vying with each other, engaging in so much duplicative construction, and duplicating imports to such an extent? Why do they look only at the present and not at the future, and only consider their own unit without considering the country as a whole? The seeking of truth in facts, and relating theories to practice have been discussed for many years, so why is it that as soon as one's own unit or region is involved, these things are completely forgotten and lower levels are permitted to produce some many slow selling goods in oversupply? I believe that the thinking and the cultural quality of leading cadres is at issue here.

The rise in people's standard of living in recent years has posed further demands on culture. Because pianos have been a commodity in very great demand in recent years, suddenly every jurisdiction went in heavily for piano plants, 40 piano plants being set up in 1987 alone. Swarms of wrist watch, camera, electric refrigerator, washing machine, and vacuum cleaner plants have been built. The result of the duplication in construction, and ill-advised production brought about a "cotton war," "a wool war," a "silkworm war," and a "beer war." The result of heedless construction for immediate returns without preparation, without skills, and without talent has been that large, well-equipped state-owned factories with skilled personnel have had to stop work and cut production because of inability to buy raw and processed materials.

Xia Yan said that in his home province of Zhejiang, the peasants used to drink river water when they worked in the fields. After founding of the People's Republic, they drank boiled water, and following the Third Plenum of the 11th Party Central Committee, they drank tea. Today, however, when they go to the fields, the peasants want to carry a few bottles of beer with them. Being able to drink beer certainly shows that the peasants have become well off, but it takes grain to produce beer, and what with the duplication of so many breweries, how much grain will be needed each year? How much foreign

exchange will be used to import equipment? It seems no one has calculated the cost. Beer used to be packaged in bottles, but in order to keep up with trends, there has now been a rush into the use of pop-top cans. But most of the materials for pop-top cans have to be imported. How much of the country's foreign exchange is needed and how much money is wasted on such advanced consumption? While there is no money for education, fistful after fistful of money is thrown away. Enlivening of the microeconomy is easy, but controlling the macroeconomy is difficult. In a country like China where economic development is not even, and where cultural development is not even, disregard for realities and heedless vying with one another whereby if you have something, then I want to have it, if you are fast, I have to be faster, seeking a large amount, seeking speed, and seeking completeness leads to macroeconomic loss of control. Some people like a big-to-do and vying with each other. Such a state of mind means that a leading cadre lacks far-sightedness, and that information is not circulating effectively; one might say that it is a question of a lack of scientific knowledge and education. The decision of the Third Plenum of the 13th Party Central Committee to bring the economic climate under control is, in effect, a decision to control just such an environment of mindlessly vying with each other that is divorced from reality, and this duplicative building of slow-selling products that are already in oversupply.

#### **Problems of "Many But Idle" Literary and Artistic Units Urgently in Need of Solution**

In 1984, Xia Yan wrote a letter to Premier Zhao Ziyang suggesting that there was no need for each province to operate a movie film production studio. Later on, the State Council formally decided that except for the 16 existing feature film studios, there was to be no further new building of feature film studios in any province or region. Not only did he incur a lot of blame as a result of this, but actually every province and city frantically built "television film studios." As far as Xia Yan was aware, at that time several hundred million dollars in foreign exchange was spent nationwide to import numerous advanced pieces of movie film equipment. Just how much has been spent as of now, there is no way of knowing. He said the country's money was spent right and left in a very open-handed way. Having bought the machines, people assumed airs of greater importance. They wanted more employees, and they increased organizational staffing willy-nilly to get them. Studios were built, but whether they could shoot films, and whether they could shoot films of benefit to the people had not been thought about at all. Anyhow, everybody had had a chance to eat out of the country's large common pot. In the operation of film studios, whether large or small, all had to have a complete line of up-to-date equipment, and all of them felt they had to build developing and printing shops, film philharmonic orchestras, a stable of performers, etc. During the 1960's, Beijing had a developing and printing plant imported from eastern Europe that could easily process film shot by the country's

provinces and cities, but film studios in every province and city set up their own developing and printing shops for the sake of "convenience." The result was that the large plant did not have enough work to keep it busy, and the small plants did not necessarily do a very good job of processing the film. After visiting facilities at the Beijing Movie Studio and the Beijing Movie Academy, numerous foreign visitors told me that the equipment in these studios would be considered first rate in foreign countries. All of it was new equipment for which hard currency had been spent to import it from abroad. Once you have advanced equipment, you have to use foreign film. Chinese produced film like that from Baoding is rarely favored. Facilities were "large and complete" and employees were "many and idle." The Beijing studio had many directors who had never shot a film. Some people called them the "72 sages," but they were, in fact, "72 idlers." Plans called for each studio to shoot between 15 and 18 films each year, but most employees did not have enough work to do. They were content to draw low wages and eat out of the common pot. Intellectuals couldn't stand the idleness. With nothing to do, they were prone to grumbling and causing internal frictions. There was a very serious problem with overstaffing of people from literary and artistic groups, a problem that is now in process of being corrected. How to organize an optimum workforce is a problem that has to be solved as part of overall reforms to produce optimization.

#### **Inspiration From the Role of Education in the Founding of Japan**

He said that Japan is a country having little land and few resources, so how did it become prosperous so quickly following defeat in 1945 to become a major economic power? Radio programs have reported per capita income in Japan at more than \$20,000.00, which is larger than in the United States (where it is \$18,000.00). What is it based on? It is based on the strong attention given to education following the Meiji restoration of 1868. At that time, Japan sent a delegation numbering scores of people, including a Prime Minister, to Europe where it stayed for 2 years studying. In 1872, Japan instituted 7 years of compulsory education. During the Meiji era, more money was spent on education than on industrialization. In 1920, I went to Japan to study. At that time, no matter which poor and out-of-the-way place you visited, the finest structure in the place was a primary school or a middle school. They were serious about compulsory education. The father of any child of school age who did not attend school would be haled into court. Because they laid this foundation, Japan very quickly became a power in Asia. At the end of World War II, Japan lay in defeat. Not only Hiroshima and Nagasaki, but Tokyo, Osaka, and Nagoya as well had been bombed to ruins by American aircraft. We older people know that during the late 1950's, the common people in Japan had a hard life with little grain to eat, to say nothing of meat, poultry, and eggs. I remember that during the winter of 1950, Lu Digen [7773 0966 0065] and his wife, who had returned to Japan from China, wrote me a letter saying

that winter had arrived, but they were unable to afford clothing to protect them from the cold. I mailed them some knitting wool and winter clothing. So how is it that in less than 20 years Japan has been able to become a major economic power? Certainly, there are many reasons, one of which is that they "benefited" from the Korean War and the Vietnam War during which they became a logistical base for the United States forces, making a lot of "war wealth." Second, they received American economic assistance and technical assistance; and third, according to the provisions of their constitution, military expenditures may not exceed 1 percent of GNP. They have more money to spend on the development of industry and agriculture. Nevertheless, even so, if they had a large number of illiterates, and if the cultural quality of the people was low, even with American economic and technical assistance, they would not have been able to change so fast. Steel, automobile, and the electronics industry were not created or invented by Japan itself. A vast amount of high technology was imported from Europe and America, but once they imported it, they were able to use it, able to digest it, and able to improve on it. This is how Japan became wealthy. It depends on the level of scientific education of its citizens.

Xia Yan said that the 800 million rural population had been the first to realize tangible benefits from China's 10 years of reform, and this was a matter of epoch-making importance. The peasantry, which has been impoverished for several thousand years, became prosperous, and some "10,000 yuan households" had appeared. However, the peasants who had become rich took two different roads. One group went into the operation of township and town enterprises, and running transportation; the other group was the "nouveau riche," who acted like landlords and who would build tombs, hold Taoist or Buddhist rites for the dead, and practice feudal superstitions. Of course, they also went through money like water, it not being uncommon to throw away large sums on extravagant living. Among peasants in coastal areas that had become prosperous, monks were invited to perform rites for the dead, 10,000 yuan being spent on the chanting of scriptures all night long. Formerly peasant families would celebrate the new year by buying several New Year pictures, which they would paste up and that would be that. Now, however, the peasants built new houses, and even went so far as to have "calligraphers" and "artists" wield their brushes to paint scrolls to be hung in the middle of the wall of the main room, or to write antithetical couplets on a pair of hanging scrolls. One "artist" told me that for painting a single scroll depicting "peaches symbolizing long life," and a pair of scrolls containing couplets, he received a "remuneration" of 1,000 yuan, which was not a niggardly amount at all. It seems that there should be a way to deal with some peasants like this who become rich first. In addition to taxing them, guiding them is even more important, and this is also a matter of the cultural quality of the peasantry. China has people like the enlightened peasant entrepreneurs Lu Guanqiu [7627 0385 3808] and Yu



Zuomin [4416 0155 2404], who used their money to produce more goods. Alas, however, they are a minority among the 800 million peasants. Most of the peasants who build up a family fortune indulge themselves in extravagance and waste, and practice feudal superstition, which is a matter of no small importance. Peasants cannot be blamed for building new houses; however, were 100 million peasant households all to build a new house, and try to keep up with life in cities, (I found during a walk I took in the Zhu Jiang Delta that the houses that the peasants built there were in no way inferior to those of a bureau director or minister in a large city), that would be bound to have an impact on the steel rod, cement, and lumber markets. The waste involved in the large scale building of storied buildings, halls, shops, and offices during the past few years is astounding. This is visible and premeditated, and it can be investigated and controlled, but rural villages have rushed ahead, and no one has stopped them.

#### **Punishment of Corruption Has To Be Transparent**

One hour had already been spent in conversation when the correspondent finally asked: What are your views on difficulties encountered in the deepening of reforms? Xia Yan replied without hesitation: I'm an optimist. My view is that there should be no lowering of the guard and becoming careless, first of all, and second that there is no need for pessimism or hopelessness. The achievements of 10 years of reform should not be underestimated; it has been 10 years of recuperation and building of strength. The Chinese people have opted to move ahead; they will not go backward. Once decided, the decisions of the Third Plenum of the 13th Party Central Committee can be put into effect. Right now, the most important thing is to eliminate unevenness in overall supply and overall demand. The key lies in strict administration of the Party and the government. Leaders should practice what they preach and serve as examples. Both private and official profiteering must be punished severely. Simply punishing a few office or section level profiteers will not do, and simply relying on fines and confiscation of hidden funds without publicizing true identities cannot be effective. The law must be used to punish one and all. If a person makes tens or hundreds of thousands of

yuan through graft, but you fine him several thousand or several tens of thousands of yuan, he will not care at all. Those who deserve to be fired must be fired; those who deserve to be sentenced to prison have to be sentenced to prison; and those who deserve to be killed have to be killed. The bigger the crime, the more publicity it should receive. Only reading about it in newspapers, hearing about it on the radio, and seeing it on television can do any real good. Punishment of corruption must be transparent, so that the common people believe that the leaders have determination. Statements such as "such-and-such a manager" or "such-and-such a bureau chief" in "such-and-such a place" has been properly punished etc., amounts to talking in vain. Certainly, when a matter involves human life, facts have to be obtained and matters handled in accordance with the law. In such cases, one cannot rush headlong into matters or engage in mere formalism. With genuine control over non-productive investment, control over duplicative construction, and a halt to unnecessary duplicative imports to safeguard national industry, and by beginning with the deepening of reforms to improve the quality of much sought after commodities in short supply, I believe that within 2 or 3 years time the double digit inflation can be halted. The things that worry me most are education and the cultural quality of the people, particularly the ideological and cultural quality of grassroots level cadres. A few days ago on the "Afternoon Half Hour" program broadcast by the Central People's Broadcasting Station, I heard the "fantastic story" of a township chief in suburban Chengdu, which was the story of a "local emperor" named Li Wanshun [2621 8001 7311] that had appeared in the 13 October issue of RENMIN RIBAO. Today he is running township and town enterprises, and his township and even village level cadres also have quite a bit of authority. This one township head was able to host a banquet of more than 10 tables, and have a motorcade of more than 10 small automobiles "make a show of force" to the public security authorities. People released from detention houses were allowed to "accept flowers outside the detention house door, pose for souvenir photographs, be draped with sashes of honor at the entrance to their homes, and set off firecrackers." A banquet could be held to "welcome a visitor from afar!" That such things can happen in the 1980's is truly very lamentable and very dangerous.

### PLA'S Flourishing Demolition Minesweeping Equipment

Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese 15 Sep 88 pp 4-5

[Article by Lu Tongbao 0712 0681 0202: "The PLA's Flourishing Demolition Minesweeping Equipment"]

[Text] A high degree of mobility is one of the main characteristics of modern warfare, and a modernized minefield is the main obstacle to battlefield mobility. Mines can inflict casualties on personnel, destroy weapons, and delay the enemy; even more important, they can strike fear in the hearts of the other side. Following the development of mine laying by rocket, cannon, and aircraft, and of scattered mine laying technologies, the speed at which minefields are laid down has increased unprecedentedly. To insure high-speed mobility on the battlefield, the armed forces of all countries in the world have developed and equipped themselves with many types of equipment for overcoming the minefield obstacle. These pieces of equipment accompany the advance of units or mechanized units. They can swiftly open routes for personnel and vehicles, so that the threat from mines is avoided and thus the aim of high-speed mobility is attained. The main methods of sweeping mines and opening routes in a minefield are: manual search and sweep, mechanical sweep, demolition sweep, as well as mechanical and magnetic sweep and demolition plus sweep.

At the end of the fifties, the PLA began research on equipment that would use the demolition method to open routes in minefields. Over the past 30 years a little over 10 kinds of demolition minesweeping equipment have been developed, and the units have been equipped with them, so that the PLA has gone from having none of this equipment to having some of it and has formed its own series. This equipment has played a role in border operations. By opening routes for our units, it has insured their successful passage through minefields, thereby making a contribution to winning victory on the battlefield. This article introduces the several kinds of demolition minesweeping equipment with which the PLA is equipped.

#### GBP120 Rocket Demolition Device

The GBP120 rocket demolition minesweeping device was the first demolition minesweeping device that the PLA finalized the design of, produced, and equipped its units with. It uses a rocket launcher for its motive power. Suddenly and swiftly it lays down a demolition belt 50 meters long that explodes among the enemy's antipersonnel obstacles. It weighs 118 kilograms, but its largest part weighs no more than 25 kilograms; 5 men can carry the parts on their backs. When in position its launch operation time is no more than 5 minutes. It has a range of 410 meters. One launch can open in an enemy's antipersonnel minefield a route that is 2 meters wide and 40 to 50 meters deep.

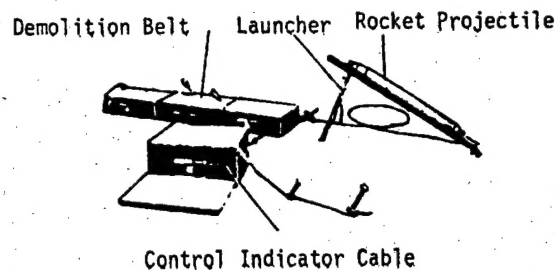


Diagram 1. GBP120 Rocket Demolition Device

The GBP120 rocket demolition device has five component parts: rocket engine, demolition belt, control indicator cable, launcher, and accessory pack. The rocket that provides the motive power is composed of a warhead, command unit, engine, and tail articulator. The demolition belt is the equipment's destructive payload. It is formed of woven polyamide fibers inside of which is placed a TNT charge. Passing through its middle is a detonating command cable that detonates the charge reliably. The detonation belt is detonated by a powder tray-type delayed fuze. The control indicator cable insures that when the demolition belt lands on the ground it is pulled straight and indicates the route to be taken by the assaulting infantry. The launcher gives the rocket a certain angle and direction of fire. It is composed of a sliding rail, front support leg, and back support leg. In the accessory pack are the sight, the igniter, and the necessary tools.

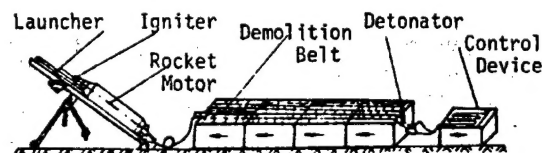


Diagram 2. GBP125 Squad Rocket Demolition Device

#### Type 84 Rocket Demolition Device

The Type 84 rocket demolition device is a piece of demolition minesweeping equipment that opens routes for tanks and other vehicles in antitank minefields. It weighs 800 kilograms. It is normally fitted on a vehicle or tank, and it accompanies units on their advance. Using a rocket engine for its motive power it pulls a demolition belt that is 80 meters long. Its flight range is over 300 meters. The demolition belt is loaded with passivated cyclomite. With one explosion it can open a lane more than 5 meters wide in an antitank minefield that is not burstproof, and the depth of this route will be more than 60 meters. The in-vehicle launch time takes no more than 30 seconds. After this fighting vehicle-borne demolition minesweeping device is launched, the launch casing is immediately and automatically jettisoned without adversely affecting the

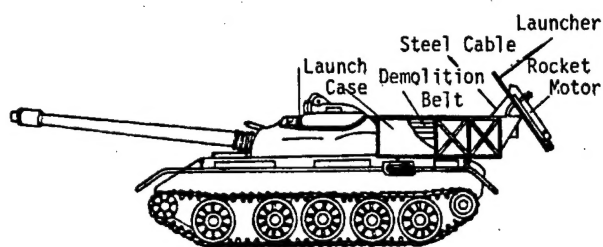


Diagram 3. Type-84 Rocket Demolition Device mounted on a Type 59 Tank

operational performance of the fighting vehicle. Tanks and vehicles can swiftly pass through the minefield along the route thus opened.

### Tracked Rocket Minesweeping System

The tracked rocket minesweeping system is a new and original piece of minesweeping equipment that is self-propelled and mobile. Its structure is unlike that of the demolition belt-type rocket demolition minesweeping device. It is composed of the following main parts: a tracked self-propelled chassis, a launching device, a rocket minesweeping projectile, and nose and tail fuzes. Its chassis is that of a refitted 152mm self-propelled gun-howitzer. When loaded with its projectile its maximum speed is 55 kilometers per hour. Its mobility is good, and its ton-horsepower is more than that of the 152mm self-propelled gun-howitzer. Its specific pressure is low, and it can be driven in a network of rivers and paddy fields. The launching device on the vehicle has a field of fire to the right and left of 90 degrees each, and its vertical field of fire can be adjusted to an angle of from 4 to 45 degrees. On each side of the body of the projectile in the launcher is a bullet-guard protective

shield, which gives the launcher a certain capability for protecting against bullets and fragments. In addition a clamp squeezes the projectile tightly, thereby insuring its safety when being transported. The landing part is controlled by hydraulic pressure. It is also fitted with an energy storage unit, so that when the motive power is lost the landing can be completed. This system's warhead has a whole-type structural form and is called the GSL211 rocket minesweeping projectile. The rocket carries a series concentrated charge, and it is launched as a complete body. When it flies a certain distance the hatch on the rocket's warhead opens and the charge is thrown out. The series concentrated charge spreads out in the air in a straight line. As it falls to the minefield, it explodes in the air close to the ground. It has a fairly strong minesweeping capability. Because the whole projectile is launched and the charge is spread out in the air in a straight line, the demolition device's range for opening a route is greatly increased. Its minimum range is more than 800 meters. Of the demolition minesweeping devices of the same type in the world today, it has the longest range. In a non-burstproof antitank minefield, it can open a route 5.6 to 21 meters wide and 110 to 150 meters deep, with a minesweeping rate of more than 90 percent. The fuze for the series power charge insures a safe trajectory and a dependable movement.

Through use by units and tests on ranges, the tracked rocket minesweeping system has been proved to have the merits of fast operation, great power, high firing accuracy, safety and dependability, and good mobility.

From a sweeping look at the demolition minesweeping equipment of the armed forces of all countries in the world, we see that the PLA's technical level and production capability in this respect have risen into the world's advanced ranks and are heading toward a newer, higher stage.

**Prospects for Democracy in Hong Kong**

40050110 Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 226, 1 Nov 88 pp 54-57

[Article by Fang Su 2455 5685: "Prospects for Hong Kong's Democracy Based on the Setbacks of the 'Democrats'"]

[Excerpt] [passage omitted] Is it possible for those who have long been concerned about the political development in Hong Kong, except for the activists of the "democratic faction," to have a different view?

Zheng Yushuo [6774 1342 4311], instructor of the Political Administration Department of the Chinese University, held that the most noteworthy issue concerning Hong Kong's democratic prospects is the political indifference of all people, which actually began several years ago.

Zheng Yushuo held that a watershed in Hong Kong's politics was an incident in November 1985 in which Xu Jiatun [6079 1367 1470], chief of the Hong Kong Branch of Xinhua News Agency, made the reproving statement that "someone is not doing things by the book." During the period of drafting the Sino-British Joint Declaration, Hong Kong people's political hope was raised because signs in all fields indicated that since the British were going away and the Chinese did not want to exercise direct control, Hong Kong seemed to be leaning toward building a government more responsible to Hong Kong people. Since big capitalists were interested mainly in doing business and the middle class felt that they could develop their talents to the full in politics and communicate with upper and lower levels themselves, many middle-class people were eager to give it a try. Political evaluation organizations were established one after another, and some even had the initial intention of organizing a political party. However, due to the "incident of not doing things by the book," many people changed their minds and began to cool down. As a matter of fact, before the "incident of not doing things by the book," there were already different rumors about

China's refusal to "return the government to the people," its demand that the "government be returned to China," and its warning that there must be no "drastic changes" during the transitional period. Later, China repeatedly stated that the development of political structure in Hong Kong must be in line with the basic law. The Hong Kong government flinched under the pressure from China. As a result, it dared not take the initiative in the greenbook of the examination of political structure and only listed its choices. And then, the result of the debate over the direct election of 1988 also made many people realize how rough Hong Kong's political future is.

Zheng Yushuo held that under the circumstances, the "democrats" split up in recent years. In the 1970's, intellectuals of the middle class did not communicate with the lower level on Hong Kong's social issues. As a matter of fact, the two sides were drawn to each other and became united because of the issue of Hong Kong's future. But after the middle class changed from being eager to being indifferent, the "fault" in the united front became increasingly clear. The number of middle-class people joining or involved in current "democratic" organizations is decreasing, whereas that of emigrants is increasing day by day.

At the same time, the number of "skillful writers" is also decreasing among the "democrats." The momentum of the "democrats" relies to a large extent on public opinion. Once the number of "skillful writers" is reduced, they will be unable to gain the upper hand in public opinion. The "skillful writers" of the "democratic faction" are mostly middle-class intellectuals. Some of these intellectuals have become depressed and others have shifted their attention to the China issue due to the understanding that Hong Kong's future is hinged on future changes in China. As a result, fewer people are interested in the Hong Kong issue and willing to write articles on it, especially the issue of democratic movement in Hong Kong. And the fact that the "democrats" are always one step behind events explains that they are short-handed and lack "skillful writers," and most people who stayed are activists and organizers.



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166

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